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American Banker

The Daily Financial Services Newspaper

Reprint of 1986 Survey Published in September, October and November

How Consumer America Views the Changing Financial Services Industry

Americans are getting accustomed to deregulation of the banking and financial system. They seem to be growing more tolerant of volatility in the system and less tolerant of shoddy service from the suppliers.

Their new feelings are illustrated by responses to the *American Banker's* third national consumer opinion survey. The telephone poll was conducted this spring among 1,028 households by Reichman Research Inc., an opinion research firm based in New York and San Francisco.

In answer to survey questions, consumers voice greater confidence in the banking and financial system than in 1984 or 1985 when a similar random sample was asked the same questions. Fewer mention bank failures as a cause for concern even though the number of failures has escalated in recent years.

But, in responses to an open-ended question probing why they have experienced a change in satisfaction with their principal institutions, 300 people mention service issues most, ahead of higher interest rates on deposits, lower rates on loans, increased convenience, and more products and services. The people who say they are more satisfied today than a few years ago mention improved service as the chief reason, and the people who say they are less satisfied mention poor service.

The most frequently mentioned reason for why someone moved their financial business is the fact that the new institution offers better service.

New imperatives brought by deregulation and increased competition are behind these dramatic shifts in attitude. As consumers see that the Federal depository insurance funds can handle rising numbers of bank failures, they are more willing to accept increased volatility in the system. In a highly competitive environment, people tolerate less in the way of bad service. They know there's something else just as good, if not better, up the block. It might even cost less.

Also, people expect to benefit from deregulation in the form of higher interest rates on deposits and lower rates on loans. It is this expectation that fueled the feeling found by the survey that a majority of consumers think credit card interest rates are too high. Many of those surveyed say they would switch credit cards for a "much lower" rate.

More evidence of deregulation's progress showed up in the survey finding that, within the past two years, an increasing number of Americans have come to believe that diversified financial services firms and nationwide banking companies can meet their needs better than their own principal financial institutions.

Moreover, when consumers are assured of equal safety and convenience, significant percentages of the public say they'd shop for traditional banking services at nonbanking firms like Sears Roebuck & Co., Merrill Lynch & Co., American Express Co., Prudential Insurance Co., and Fidelity Investments.

Sears, the survey finds, is the financial services company most known, liked, and used by American consumers. In just two years, there has been nearly a tripling in the number of consumers who say they buy Sears financial services — from 11% of the public responding this way in 1984 to 30% this past spring.

In addition, people like the idea of companies other than banks getting into the banking business a lot more this year than they did in 1985. There has been a doubling in the number of people saying they think it is very good for consumers if companies other than banks get into the banking business.

There was a sharp decline in the number saying they think it's not such a good idea. About a third say they think it's a fairly good idea.

When this question was asked in 1985, only 10% of the public thought it was a very good idea for companies other than banks to enter the banking business and 45% said not so good. Now, the gap has narrowed to the point where 23% are strongly in favor and 29% opposed.

The *American Banker* survey also found that:

- Most Americans whose financial institutions have been involved in mergers or acquisitions feel positively about the combinations. A fifth of the public does business with at least one financial firm that has recently merged with another.
- Credit unions are the winners and commercial banks the losers when people shift any of their financial business around. Also, credit union members are America's most satisfied consumers of financial services.
- A wide margin of consumers believe it would be appropriate for American Express to own a bank but they're not so sure about some of the other nonbank competitors like Sears Roebuck, Merrill Lynch, Prudential Insurance, or Fidelity Investments.
- Thirty-five percent of consumers say they are likely to accept Discover, the new credit card introduced by Sears that is aimed squarely at the bank credit card market.
- Consumers rate Visa more highly than MasterCard for a range of uses even though the two cards are virtually identical products.
- The number of people using automated teller machines in 1986 has remained flat compared to a year ago, but the number of heavy users — those who say they use banking machines for every transaction — has doubled.

— **Laura Gross**

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11 Thirty-five percent of consumers say they are likely to accept Discover, the new credit card introduced by Sears, Roebuck and Co., and nearly half of consumers are aware the card exists.

12 A majority of consumers think credit card interest rates are too high, and many say they would switch for a "much lower" rate.

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16 Most consumers think that it is unreasonable for banks to charge them for automated teller machine transactions at a time when more and more banks are levying such fees.

Consumers More Confident of Banking System

They Show Less Concern Over Number of Failures

By **MICHAEL WEINSTEIN**

NEW YORK — Consumers' confidence in the banking system is up for the second year in a row at a time when bank failures are at a record high, according to a survey commissioned by the *American Banker*.

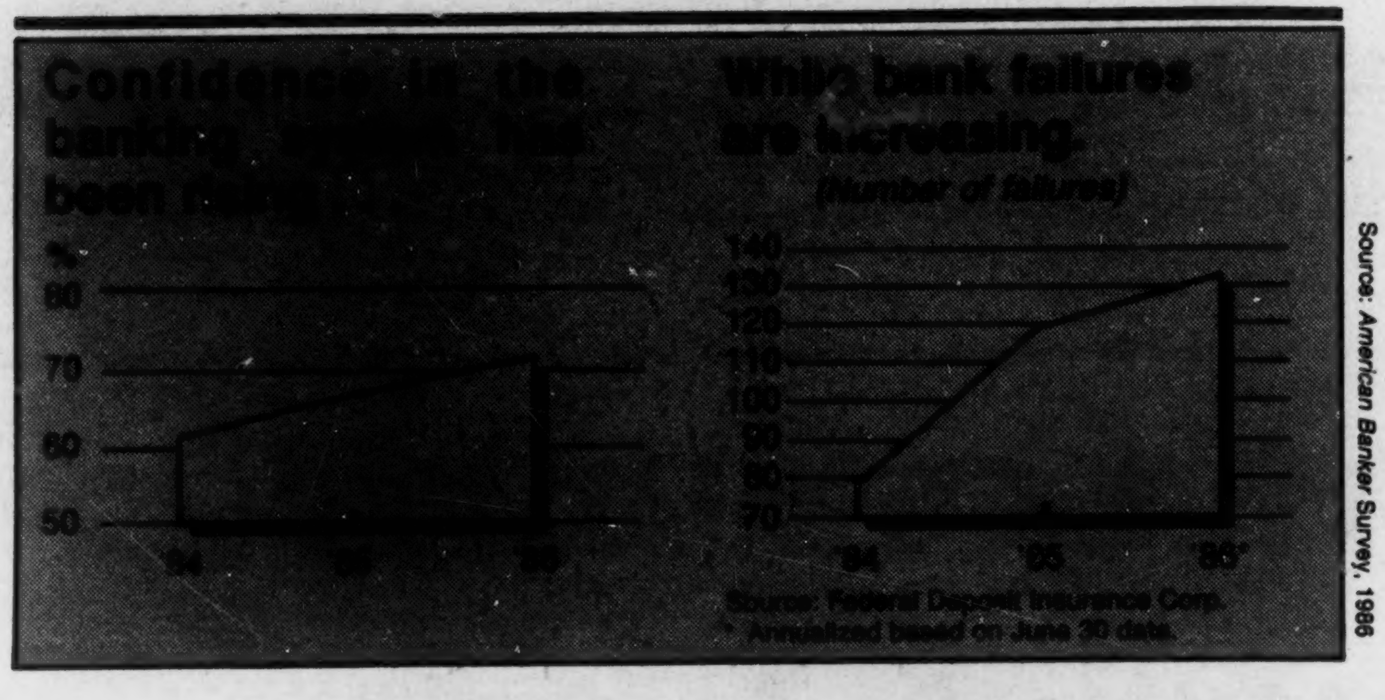
While consumers are aware of bank failures, they express less concern over bankrupt financial institutions this year compared to last year. In fact, consumers tend to react to broad economic issues — such as the health of the financial system — on a highly personal basis.

Meanwhile, analysts say that the banking system is basically in good shape except for pockets of weakness.

The newspaper's third annual survey, "How Consumer America Views the Changing Financial Services Industry," gauged attitudes on a range of issues. The nationwide telephone survey polled 1,028 adults between May 30 and June 18. It was conducted by Reichman Research Inc., an opinion research firm in New York City and San Francisco.

"I think it's very significant that the trend is more of the people have greater confidence," says Donald T. Senterfitt, vice chairman of Atlanta-based SunTrust Banks Inc. and president of the American Bankers Association. "I think it demonstrates that the public generally recognizes the stability of the banking system."

Consumers were asked: How much *confidence do you have in the U.S.* banking and financial system compared to a few years ago?



Source: Federal Deposit Insurance Corp.
* Annualized based on June 30 data.

Source: *American Banker Survey*, 1986

	'86	'85	'84
More	20%	17%	16%
Less	27%	32%	36%
About same	52%	50%	46%
Not sure	1%	1%	2%

A "very positive level" of consumer confidence has also been recorded during the last year by the Conference Board, says Fabian Linden, executive director of the consumer research center at the Conference Board. The board is a business-funded research group that has been surveying consumer attitudes about the American economy for the past 20 years.

Also, consumers' opinions about the health of the banking system have remained steady, according to the *American Banker*'s survey. They were asked: How healthy do you think the U.S. banking and financial system is?

	'86	'85	'84
Very healthy	15%	14%	14%
Fairly healthy	58%	60%	55%
Fairly unhealthy	12%	15%	15%
Very unhealthy	8%	7%	10%
Not sure	7%	4%	6%

Consumers who think the system is healthy most often mention lower interest rates, the stability of banks, and a healthy economy as reasons, in response to an open-ended question.

"Even though there have been some failures, they're mainly very dependable," says a New York State resident.

Others have more personal views. "I haven't gone under yet, so it must be OK," says a resident in western Pennsylvania who rates the system fairly healthy.

The experts agree.

"Taking the country as a whole, it's better than it's been for the last five or six years," observes John J. Lyons, managing principal of Lyons, Zomback & Ostrowski Inc., a New York City consulting firm. "Everything's getting better."

According to his firm's data, over the last three years the nation's biggest banks — those with at least $10 billion in assets — have boosted their profitability, reserves for loan losses, and primary capital, which serves as a buffer for all sorts of losses. Although loan losses have increased, nonperforming loans — an indicator of future charge-offs — are down, Mr. Lyons says.

"I think it's important to differentiate the pockets of weakness from the overall industry," says James J. McDermott Jr., senior vice president at Keefe, Bruyette & Woods Inc.

Although bank failures have been rising in recent years — they are expected to exceed 150 this year — many of this year's can be traced to two areas: the troubled, energy-based economy in the Southwest and the ailing farm region in the Midwest.

According to the newspaper's survey, consumers in the South, which includes the oil patch, are slightly less confident than those in other regions. But in the north central region, which includes the Farm Belt, consumer confidence is on par with the general public.

"There's enough good news to wash out the bad news to the average American," says David Reichman, whose firm supervised the research project.

Consumers who think the banking system is unhealthy most frequently cite a weak economy, bank failures, and Third World debt.

"We've made too many loans to Mexico," says one Midwesterner. "If they go under, so will we."

"There are too many banks closing lately, and people don't have as much trust in banks as they used to," says a Wyoming resident, who believes the system is fairly unhealthy.

Consumers' perception of bank failures, while noticeable, is not as significant this year as last year. Among those who believe the banking system is very unhealthy, only 1% cite bank failures this year, compared to 14% in 1985.

But last year, failing financial institutions attracted the omnipotent eye of television. Extensive TV coverage of the financial crises in Ohio and Maryland presumably heightened consumer awareness of the issue. In those states, there were questions about the soundness of state insurance funds that guaranteed consumer deposits. That sparked runs on many thrift institutions there.

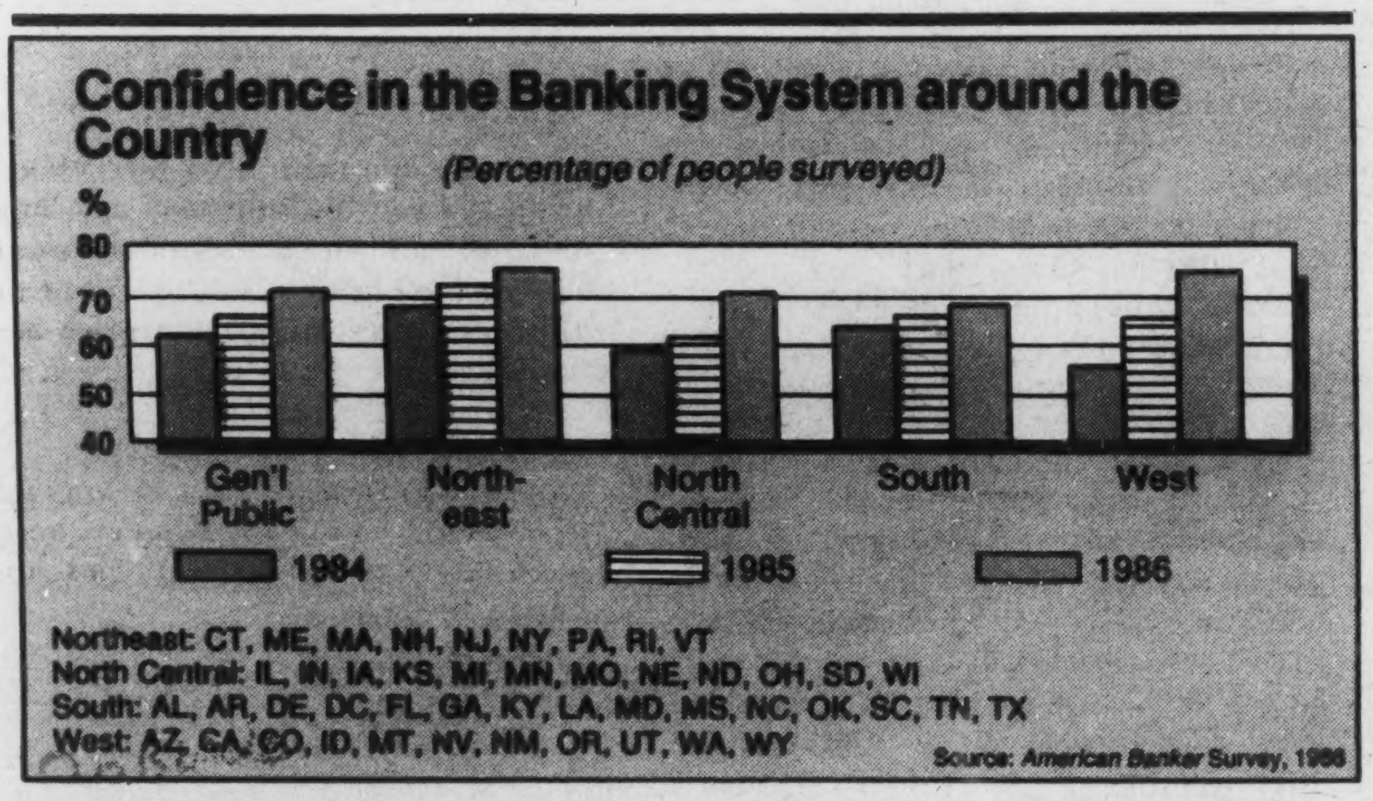
As in 1984 and 1985, there is a correlation between faith in the banking system and satisfaction with the primary financial institution. Consumers who say they are equally or more satisfied than a few years ago with their principal financial institution are more likely to be confident in the banking system.

"My bank is very friendly and helpful," says one Midwesterner who thinks the banking system is fairly healthy.

"The consumer is just the ordinary citizen who worries about his job, his kids, his wife, his mortgage," says Mr. Linden of the Conference Board. But after comparing the results of the board's consumer surveys to economic developements, he concludes, "The consumer is the best forecaster of all."

Confidence in the Banking System around the Country

(Percentage of people surveyed)



Northeast: CT, ME, MA, NH, NJ, NY, PA, RI, VT
North Central: IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI
South: AL, AR, DE, DC, FL, GA, KY, LA, MD, MS, NC, OK, SC, TN, TX
West: AZ, CA, CO, ID, MT, NV, NM, OR, UT, WA, WY

Source: *American Banker Survey*, 1986

What Consumers Say About the Banking System

People who think the system is healthy say

I never heard of a Third National Bank going out of business.

— A young Tennessean

You hear about some banks going down, but I think it is because of poor management. Also, I believe that the government wouldn't let the system go under.

— An urban Californian

The articles reprinted here were written by Laura Gross, Associate Editor, and Michael Weinstein, Staff Writer. Art Direction by Pamela Budz. Charts by Stanford Kay and Teresa Berasi.

For Survey Reprints

Additional reprints of the complete *American Banker* survey series, "How Consumer America Views the Changing Financial Services Industry," can be obtained for $15 each by writing to: American Banker, Attention: Gina Caputo, One State Street Plaza, New York, N.Y. 10004 (212-943-8677). This is the third such *American Banker* consumer attitude survey. Reprints of articles describing results of the previous two surveys also are available for $10 for both.

In addition, the *American Banker* and Reichman Research are making the consumer research survey data available in a variety of other formats, including a hard-copy report, magnetic tape, and a diskette package. Additional information can be obtained from: David Reichman, president, Reichman Research Inc., 3 E. 44th St., New York, N.Y. 10017 (212-986-7709.)

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Most Customers Say They Found Better Service After Their Financial Institutions Were Merged

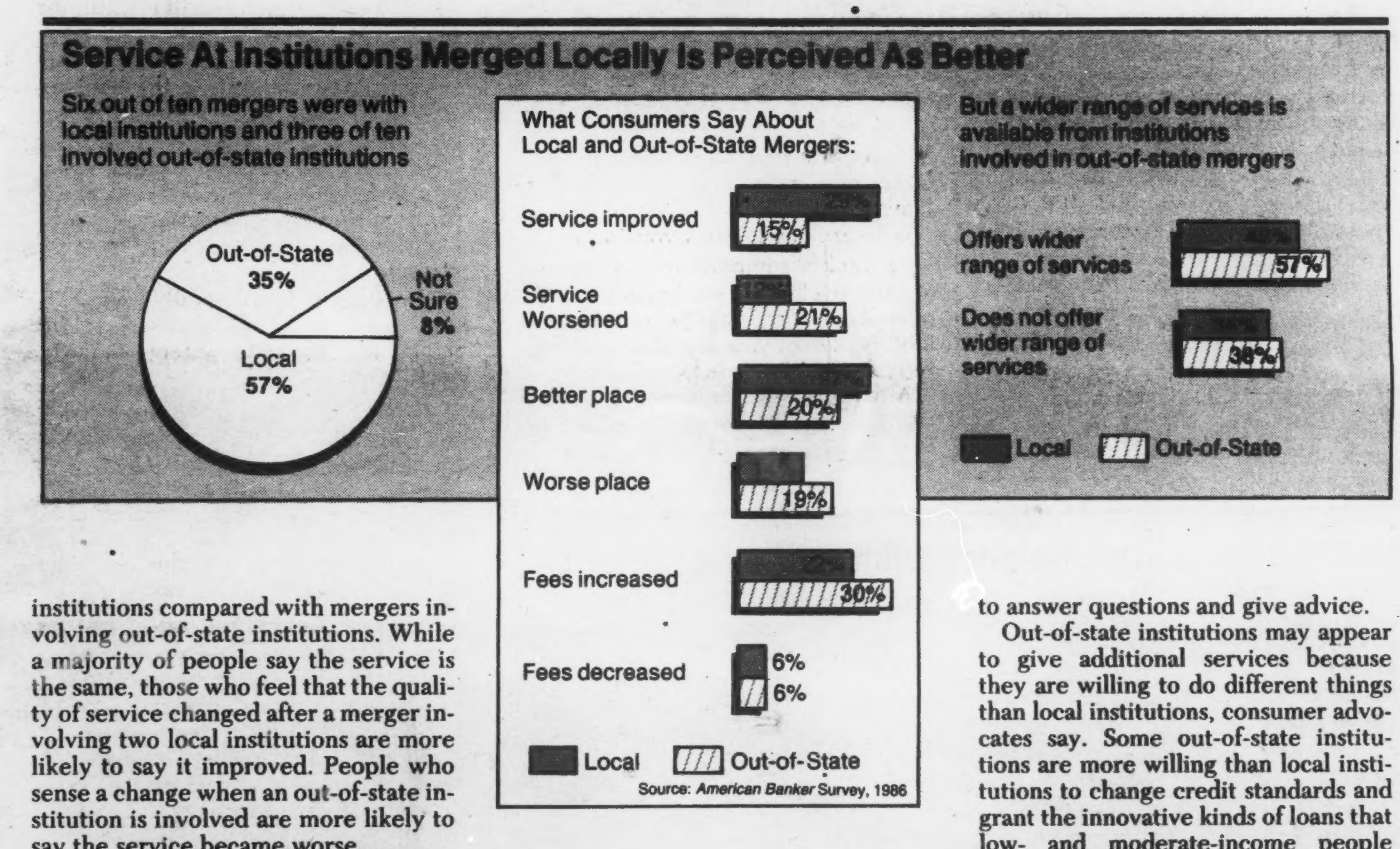
NEW YORK — Americans whose financial institutions have been involved in mergers or acquisitions seem to feel positively about the combinations.

Most of the people who have experienced this kind of arrangement believe that their financial institutions are either the same sort of places to do business as they were before, or better.

About half of the people who do business with a merged or acquired institution see no change since the merger. One-fourth say the service improved, while 14% say it got worse.

According to the *American Banker's* latest consumer opinion poll, one-fifth of the public say they do business with a financial firm that has merged with another recently.

The survey finds a difference in consumers' opinions about the quality of service after mergers involving local institutions compared with mergers involving out-of-state institutions. While a majority of people say the service is the same, those who feel that the quality of service changed after a merger involving two local institutions are more likely to say it improved. People who sense a change when an out-of-state institution is involved are more likely to say the service became worse.



Source: *American Banker* Survey, 1986

Consumers whose financial institutions have been involved in mergers tend to think that those bought by out-of-state acquirers offer a wider range of services. More say fees go up when out-of-staters come in than when local institutions are involved in the merger, the survey finds.

These are among the results of *American Banker's* third national consumer opinion poll. The telephone survey was conducted among 1,028 consumers this spring by Reichman Research Inc., an opinion research firm based in New York and San Francisco.

The data imply that "consolidation has not gotten anywhere near the stage where consumer satisfaction would be impaired by a lack of competition," comments Irving Leveson, senior vice president and director of research for the Hudson Strategy Group, a Marsh & McLennan Companies Inc. subsidiary based in New York.

Mr. Leveson is referring to the trend toward consolidation by merger among the nation's commercial banks. Some industry observers have predicted that, ultimately, this trend could produce a decline in the number of American banks from around 14,900 today to somewhere between 5,000 and 10,000 banks.

Wary legislators and regulators have voiced concern that consolidation will put most small banks out of business, replacing them with a handful of giant firms holding too much power along with most of the banking assets.

But the *American Banker's* findings indicate that, at least so far, the concentration of assets is happening in a fashion that does not upset consumers.

"The *American Banker* findings are in marked contrast to writings by people in national magazines who are constantly painting horror pictures about the adverse effects of mergers on competition," Mr. Leveson says.

Part of the reason, he says, could be the "emergence through a Darwinian process of a group of very successful firms in the second tier — the second 25 largest banks. They are growing very rapidly through merger and in many cases show well above average profitability.

"The *American Banker's* finding that locally merged institutions are seen as more satisfying may reflect the emergence of the superregionals which have come out of the intense local competition successfully oriented toward the needs of consumers in those areas," says Mr. Leveson.

His perspective is shared by others who analyzed the survey findings.

"Local mergers, by and large, are taking inefficient and poor performers out of the market. They're being acquired by good performers, so whatever happens is better," says Alan Fox, a legislative representative for the Consumer Federation of America.

Until the advent of recent regional interstate banking compacts, all out-of-state mergers involved far-away firms coming to the rescue of troubled local institutions. They may have garnered a more negative feeling from consumers for that reason, some observers say.

But the consumers' sense that institutions involved in out-of-state mergers offer a wider range of services is right on target, they add.

"A local institution that's going out of business and needs rescuing by an out-of-state firm clearly won't have been pushing a lot of new products," notes Tom J. Hefter, president of the Financial Institutions Marketing Society of America, a professional society primarily for marketers at thrift institutions.

Access to new services is uppermost on consumers' minds when they talk about what they like about merged institutions, the survey finds. People who feel that their financial institutions are better places since mergers or acquisitions volunteer most as the principal reason that the institution offers more services. Second in importance is a higher level of financial security, and, third, employees who are better able to answer questions and give advice.

Out-of-state institutions may appear to give additional services because they are willing to do different things than local institutions, consumer advocates say. Some out-of-state institutions are more willing than local institutions to change credit standards and grant the innovative kinds of loans that low- and moderate-income people need to develop inner city neighborhoods, they say.

Michael D. Shea, the national campaign director for Acorn, the Association of Community Organizations for Reform Now, says: "A Citicorp or Security Pacific can come in and do those loans and it doesn't frighten them. But if you talk to the locals about things like that, they look at you as if you're talking Greek.

"On the other hand, I'm not sure that, unless the community groups forced them, the out-of-state banks would institute these innovative lending programs," Mr. Shea says.

Acorn describes itself as "a grassroots organization of low- and moderate-income people who've joined together to improve their communities and win a fairer share and greater voice" for all Americans of modest means. The group has 60,000 members and 750 chapters in 26 states.

Mr. Shea appreciates the trend toward interstate mergers because "it gives community groups a little more leverage" when challenging banks under the Community Reinvestment Act, something Acorn does a lot. It is easier to get concessions, Mr. Shea says, because "the stakes are higher in an interstate merger." Challenged holding companies making moves across state lines comply more readily with Acorn requests because they "want to get on with the merger."

Members of other consumer groups say that, despite the *American Banker's* finding that people are generally positive about mergers, the jury is still out on just how good or bad the trend toward consolidation will be for the nation's consumers.

"It's just too soon," says Elspeth Revere, the president of Woodstock Institute, Chicago, which conducts applied research and designs programs to increase lending in modest income communities around the country.

"Our suspicion is that the kinds of services that require local knowledge and judgment will diminish — like small business and multifamily lending," she says.

William J. Dennis agrees. He is the senior research fellow at the National Federation of Independent Businesses, the largest trade association in the country for small business with more than half a million members.

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How the Survey Was Conducted

The *American Banker's* third annual survey on "How Consumer America Views the Changing Financial Services Industry" is based on 1,028 telephone interviews of a random cross section of the American public.

Reichman Research Inc., a New York- and San Francisco-based marketing and opinion research firm, developed the survey questionnaire in collaboration with the *American Banker's* senior editors. Reichman Research was solely responsible for the interviewing and the preliminary analysis of the survey data.

Interviews were made among a stratified random digit-dial sample, drawn so that all telephone-owning households in the continental United States, listed and unlisted, had a theoretically known chance of being selected.

Heads of households, coheads, and spouses of heads of households, 18 years of age and older, were eligible to be interviewed.

All interviewing was conducted between May 30 and June 18. The typical interview lasted 18.4 minutes.

Before it was analyzed, this sample was weighted to correct any minor deviations from known population characteristics.

The expected sampling error for a survey consisting of about 1,000 interviews is plus or minus three percentage points. This margin of error applies to the total sample. Subgroups that consist of smaller sample sizes have greater margins of error.

The same research firm conducted the *American Banker's* first two consumer attitude surveys in 1984 and 1985. Additonal information, including a copy of the survey questionnaire, can be obtained from David Reichman, president, Reichman Research Inc., 3 East 44th St., New York 10017 (212-986-7709).

Are Financial Firms Merging As Often as Customers Believe?

NEW YORK — Twenty percent of the public think a financial institution they do business with has been involved recently in a merger or acquisition, according to the *American Banker* survey.

If this is an accurate reflection of the degree of consolidation that has happened so far, it indicates that a major concentration of assets may already have occurred.

But there is a question as to whether the survey findings are an accurate reflection of how much consolidation there has been or only a perceptual stab at reality by consumers who were surveyed.

Because no data were readily available to answer this question, additional research was conducted through telephone interviews with regulators. The data they provided for this article were analyzed by the *American Banker*'s statistics department.

Of the three major financial services providers — commercial banks, savings and loan associations, and credit unions — only the savings and loan industry has amalgamated at a rate anywhere near 20%.

"Five or six years ago there were 4,600 savings and loan associations; today there are 3,500. That's more than 20% of them gone," points out Tom J. Hefter, president of the Financial Institutions Marketing Society of America.

About 14.8% of credit unions were involved in mergers between 1982 and 1985, according to data supplied by the Credit Union National Association. That rate was much greater than the 4.4% rate at which new credit unions were formed. Added to a high level of liquidations, the mergers left a total of 17,581 credit unions at the end of 1985, compared with 19,897 at the end of 1982.

Over the past four years, through yearend 1985, commercial banks have merged at the rate of 2.29% a year — a total of 9.16% for the full four-year period. This includes mutual savings banks which are now insured by the Federal Deposit Insurance Corp.

At the same time, the pace of new bank charters has outstripped the pace of mergers. New charters have occurred at a rate of 2.71% yearly, or 10.83% over the four years ended Dec. 31, 1985. These percentages are based on data supplied for this article by the Federal Deposit Insurance Corp., the Federal Reserve Board, and the Office of the Comptroller of the Currency.

The net effect of the difference between the rate of new charters and the rate of mergers has been to increase the total of banks in America from 14,801 at yearend 1982 to 14,910 at yearend 1985. Even the 290 bank failures which occurred in these years weren't enough to offset the healthy growth rate of new bank charters.

At this pace, predictions of a much reduced banking industry by 1990 or 2000 will fall far short of the mark. Projections abound that the trend toward consolidation will produce a decline in the number of commercial banks to somewhere between 5,000 and 10,000 banks by 1990 or 2000.

In order to precipitate a drop from about 15,000 banks now to 10,000 by the year 2000, banks would have to merge at an annual rate of 3.07% for the next 13 years. That isn't far off the 2.29% rate that's been in progress for the past four years. To yield 5,000 banks by 2000, they'd have to merge at a rate of 8.1% annually. This does not take into account the impact of new charters or liquidations which would affect the actual number of banks left on that date.

One industry observer who once predicted 9,600 banks would exist by 1990 says now that "trying to predict specific numbers is a fruitless exercise." This comment comes from Joel P. Friedman, partner and director of strategic management for Arthur Andersen & Co.

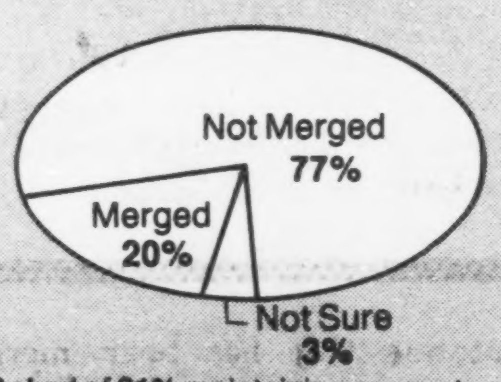
He says the rates of mergers and new bank acquisitions tabulated at the *American Banker* show that "[Sen.] William Proxmire can sleep at night knowing we aren't going to be dominated by five giant institutions."

Like other future-watchers, Mr. Friedman for some time has been attempting to predict the ways in which consolidation will occur in the banking industry. He says most studies he's been involved with envisioned a much more rapid process where states such as Texas would permit statewide branching rather than expansion through the formation of multibank holding companies.

Furthermore, "piecemeal geographic deregulation" and the sorry state of the farm and energy economies have contributed to a slowdown in expected

Consumers Are Positive About Mergers and Acquisitions

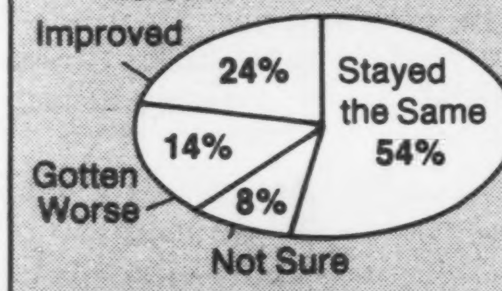
Two out of ten people say that a financial institution they deal with has been merged or acquired lately*



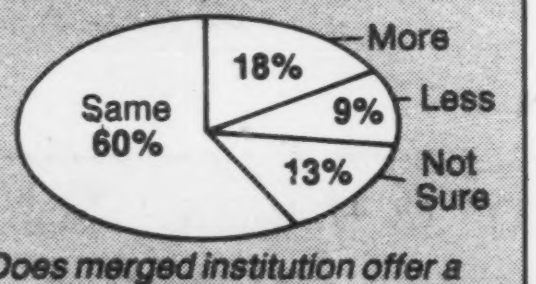
* Asked of 91% maintaining accounts at depository institutions

How They Rate Mergers & Acquisitions:

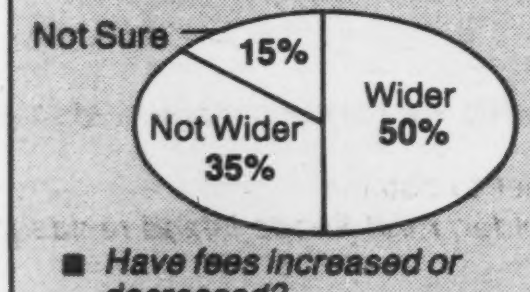
- *Has service improved or gotten worse?*



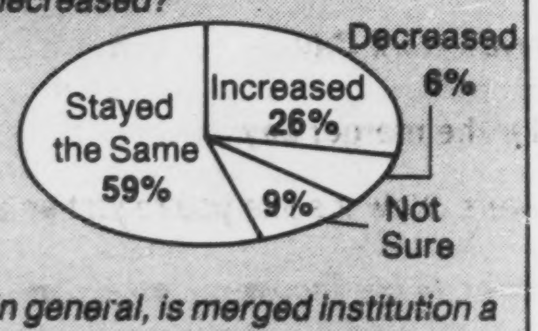
- *Are employees more or less knowledgeable?*



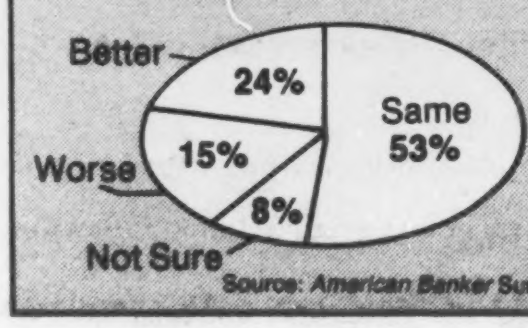
- *Does merged institution offer a wider range of services?*



- *Have fees increased or decreased?*



- *In general, is merged institution a better or worse place to do business?*



Source: American Banker Survey, 1986

Continued from Page 3

He says that "the larger and more impersonal banks become, the more difficulty there will be in terms of getting small business services." So far, however, there's been no increase in complaints from businesspeople at smaller companies about the rise in mergers and acquisitions.

Mr. Fox of the Consumer Federation of America says he thinks that "in the short run, communities won't see lots of deterioration and will see improvement in service, if only because acquirers will be more conscious of community fears and will pay more attention to them.

"It's after the acquired bank is more fully integrated into the system when deterioration might start. That's when someone sharpens the pencil and says, 'Hey, we can consolidate all the loan approval officers in one place. We don't need to have them all over the country.' "

That kind of an attitude can be the death knell for a merged institution, according to bankers at superregionals that eschew such actions.

The vice chairman of one of those superregionals is Donald Senterfitt of SunTrust Banks Inc., Atlanta, and president of the American Bankers Association.

He says, "those banks that have the policy of decentralized management are likely to find much more satisfaction among the customers because local people can take care of the full needs of the community."

Often, however, institutions involved in mergers and acquisitions are only looking for growth as a way to produce economies of scale. Employee comfort and consumer attitudes are ignored in the desire to keep costs down and improve productivity.

"When you start thinking of cost cutting, there is a natural tendency to try centralizing some of the operations and certainly the decision making. You have a risk in doing that of forgetting that the point of customer contact can't be centralized," says Joel P. Friedman, partner and director of strategic management for Arthur Andersen & Co., the accounting firm.

Once a new accounts officer himself, Thomas E. Honey, now the president of the Consumer Bankers Association, says institutions that don't spend time on internal training and communication but only approach the merger situation from the standpoint of cost control by cutting staff probably will end up with a cadre of highly irritated employees.

"They'll be so overworked that they'll just say to themselves, 'I don't have time to use my own judgment; I'm just going to follow the rules.' " And that is dangerous, Mr. Honey warns.

It leaves no room for developing the attitude that "your customer is your lifeblood, and you've got to try to understand their needs and work with them, instead of giving them hard-and-fast rules that were only meant to be guidelines to begin with," he says.

What is important, these experts say, is keeping employees comfortable and informed about what's going on. Otherwise, financial companies risk losing customers due to errors employees make out of anxiety about their jobs, a lack of information about new policies, or other factors.

The *American Banker's* survey shows that the comments of these industry leaders are not hollow. Consumers are, in fact, more prone to moving their financial business around when a financial institution they deal with has been involved in a merger. About 31% of those whose institutions were involved in mergers say they moved some financial business from one financial firm to another. That compares with a figure of 22% among the general public who moved some business.

One reason could be a lack of personal service following the merger. In the survey, the chief complaint of the small number of individuals who believe that their financial institutions are worse places following mergers is that they now receive less personal attention than they did before. Slower service and higher fees are other responses volunteered in responses to open-ended questions.

"You would expect that a larger more distant organization with a vast bureaucracy and procedure manuals would be less able to offer personalized service than a small, locally owned and operated institution," comments William M. Isaac, president, Secura Group, a consulting firm based in Wasington, D.C.

That is why — in addition to a "comparative handful of megafirms" — he expects that the future financial services industry also will contain "another type of institution, which'll exist by the thousands, and that's the smaller, retail-oriented firm. It won't be able to offer the range of products or be as competitive on price, but it will offer personalized service, and there are a lot of small businesses and retail customers who'll be willing to pay an extra dollar to get that service."

For any institution caught today in the middle — not mega but too big to be mini — the choice of strategies is more difficult. Industry leaders point out that there is value added at any size in promoting the sense of a caring, personalized institution.

"The greatest success stories that will be written about the superregionals five and 10 years from now will be written about those that haven't gone out and merged just to get new numbers, just to become $30 billion or $40 billion institutions," says C.C. Hope, member of the Federal Deposit Insurance Corp. board of directors and until recently vice chairman of the First Union Corp., Charlotte, N.C.

"The great stories," Mr. Hope says, "will be told about those companies that completely changed their attitude toward the marketplace, that put staffs in place to develop that attitude by creating not only new slogans, but new services, that began responding to the needs of people and helping them achieve their dreams in life."

— L.G. ■

How Wells Fargo Absorbed Crocker, Kept Its Customers

NEW YORK — How do you handle a merger so consumers don't get turned off?

Some bankers point to Wells Fargo Bank's acquisition of Crocker National Bank, both in San Francisco, as a good case study.

They say that Wells acted properly in the merger by minimizing employee panic and handling customer confusion before it began.

Employee turnover at acquired institutions usually booms. At Crocker it declined dramatically, from 25% right before the merger was announced, to 5%, according to Lona Jupiter, a Wells Fargo senior vice president.

Part of the reason, says Stephen A. Enna, a Wells senior vice president and personnel director, is that "we spent a lot of time making sure people were treated fairly. From a human resources perspective, it's great to do lots of nice things for people, but the reason we did it is that it made good business sense.

"To the extent you can inform employees of their status and the policies and programs that effect them, you'll minimize disruption in the workplace. That disruption is important because it can, and oftentimes does, lead to customer dissatisfaction," Mr. Enna adds.

The first thing Wells did was solicit the help of Crocker's human resources staff so that, within a week of the announcement, they could issue a special edition of Wells' employee handbook for Crocker workers that spelled out the benefits they'd have as Wells Fargo employees. For those whose jobs were to be eliminated, Mr. Enna says, a minimum of 30 days' advance notice was given and letters were sent explaining the amount of separation pay, where to attend job search workshops, and other issues of interest.

For these people, the goal was "that they feel treated in an equitable fashion," Mr. Enna says. And for employees who stayed, there was a 24-hour hotline to call if they felt concerned or anxious, he says.

Also important was clear, strong, and immediate communication with consumers. Wells interviewed Crocker's customers to see what their concerns were. Ms. Jupiter says the principal concerns were, "Will my branch close and do I have to order new checks."

A letter went out to every Crocker customer explaining that they didn't have to order new checks and giving a phone number to call for further questions. The phone was staffed for six weeks. After the crush of calls during the first two weeks, they dribbled off to just a few.

"We coped with their initial anxiety and nervousness and convinced people to give us a chance. They may have been even more forgiving than they normally would have been because of that," Ms. Jupiter says. ■

— L.G.

mergers, according to Irving Leveson, senior vice president and director of research for the Hudson Strategy Group, a subsidiary of the Marsh & McLennan Companies Inc.

Still, he thinks a figure of 5,000 banks by the year 2000 is not out of the realm of reality: "The error in predicting will be because a larger number of small banks than expected survive, not because of a mistake in projecting what percentage of the business the largest 100 banks will have."

It is the beginnings of early concentration of assets among those larger institutions that Mr. Leveson says the *American Banker* survey may have picked up by finding that 20% of the public does business with a financial institution that has been merged or acquired.

He suggests that another possibility is that people may also have confused name changes with mergers. For the 12th straight year, banks have changed their names more frequently than other kinds of companies, according to a recent study by Anspach, Grossman Portugal Inc., communications consultants.

Additionally, the fact that people generally use multiple suppliers of financial services increases the chance that more of them would have experienced an amalgamation over the course of several years. ■

— L.G.

What Consumers Say
About the Effect of Mergers

People who think things are better after the merger say:

"They have been more accurate with record-keeping, probably because they have better computers and equipment since the merger.

— A middle-aged, suburban Wisconsin college graduate

There is more capital available. Loans are easier to obtain.

— An older, rural Rhode Island resident

They offer more services now.

— A young, middle-income man from New York City

People who think things are worse after the merger say:

Before the merger they knew who you were. Now it's like you're just an account number to them.

— An older, lower-income, rural Pennsylvanian

The prices have gone up so much. To just do business with the bank you have to pay.

— A middle-aged, middle-income, suburban Maryland woman

Regulations are more evident. There is more red tape.

— A middle-income, rural Georgian

It's a bad place to do business because it is a large, less personal bank than when it used to be a small personal bank.

— An older, upper-income, urban Alabama man

Nonbanks Entering Banking: More Consumers Like the Idea

Survey Results Reflect Big Change in Attitude

NEW YORK — Americans like the idea of companies other than banks getting into the banking business a lot more this year than they did in 1985.

According to *American Banker's* new national opinion poll, there has been more than a doubling in the number of people saying they think it is very good for consumers if companies other than banks get into the banking business.

Also, there has been a sharp decline in the number saying they think it's not such a good idea. About a third say they think it's a fairly good idea.

These statistics represent a dramatic shift in consumer attitudes over the course of a single year. When the question was asked by this newspaper in 1985, only 10% of the public thought it was a very good idea for companies other than banks to enter the banking business and 45% said not so good. Now, the gap has narrowed to the point where 23% are strongly in favor and 29% opposed.

This new attitude is evident in responses to open-ended questions probing the reasons why people feel as they do. About 21% of a national sample of consumers living in 1,028 households favors this form of deregulation mostly because it "would create more competition." An additional 9% favors it mostly because "it would provide more opportunities, more of a selection."

These findings come from *American Banker's* third national consumer opinion survey. The telephone poll was conducted this spring by Reichman Research Inc., an opinion research firm based in New York and San Francisco.

The survey results "may indicate that the general public doesn't give a flip whether it's a bank or a dry goods store" that supplies their financial services, observes Donald Senterfitt, vice chairman SunTrust Banks Inc., Atlanta, and president of the American Bankers Association.

He softens this observation with the observation that "most people still have a higher regard for traditional banks than they do these newer competitors."

But he thinks that the poll's findings underscore "the danger of a significant weakening of the commercial banking system without coherent national policy on banking that includes the ability to offer additional products and services.

"If it's going to be a free-for-all" he suggests, "then why not make it free for all?" Banks, he argues, are not free to compete on an equal footing with nonbank financial companies, a fact which he finds conspicuous in *American Banker's* research results.

Banking Committee Agrees

Senate Banking Committee staff members agree with this analysis of the survey's findings.

Through its inaction, "Congress is condemning the banks to gradually becoming anachronistic institutions that don't have a role to play because they are not allowed to evolve with the marketplace," says Lamar Smith, chief economist for the committee, which is chaired by Sen. Jake Garn, R-Utah.

Current national policy, he says, makes about as much sense as it would have made 20 or 30 years ago to "say General Electric is the only company that can put air conditioning in cars. The marketplace changed. People wanted air conditioning in their cars. What if we would have restricted General Motors or Ford from putting it in?"

Because congressmen are political creatures, many are reluctant to take action on an issue where the marketplace is intensely divided.

"Certain segments of the banking industry have recognized the importance of the need for banks to be permitted to offer new products and services, but others haven't woken up yet," Mr. Smith says. "I would hope a survey like this would galvanize the industry into a strong legislative effort to update the nation's banking laws."

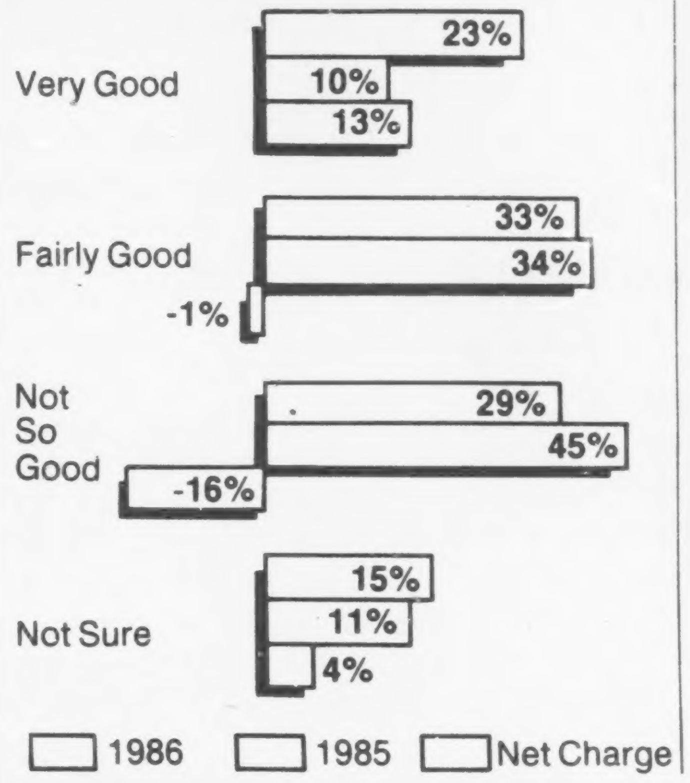
This sense of urgency also is voiced by banking industry leaders.

"Research is now showing the results of the industry's not getting together on the legislative side and the potential impact that will have on the customer base of the future," says John A. Russell, vice president, Banc One Corp., Columbus, Ohio, and president of the

Survey: Page 6 →

Nonbanks In Banking : Good Idea or Bad?

How good is it for consumers if companies other than banks get into the banking business?



Who's Most Likely To Say Very Good:

18-34 year-olds
Westerners
Men
Credit union members
Finance company customers
Brokerage firm customers
Frequent ATM users

Who's Most Likely To Say Not So Good:

Northeasterners
55-year-olds and older
People whose financial firms merged
Mutual/money fund customers
People with less confidence today

Source: *American Banker* Survey, 1986

Service Is Top Reason for Customer Satisfaction

By LAURA GROSS

NEW YORK — Consumers rank good service first when they talk about what satisfies them most about their financial institutions.

They say that being treated well is even more important than getting high interest rates on deposits, low interest rates on loans, or new products and services.

The *American Banker's* latest consumer opinion poll finds that one-fifth of the public is more satisfied now with their main financial companies than they were in the past. One-tenth is less satisfied. In both groups, service issues are mentioned most — by about one-third — as reasons for the change in attitude.

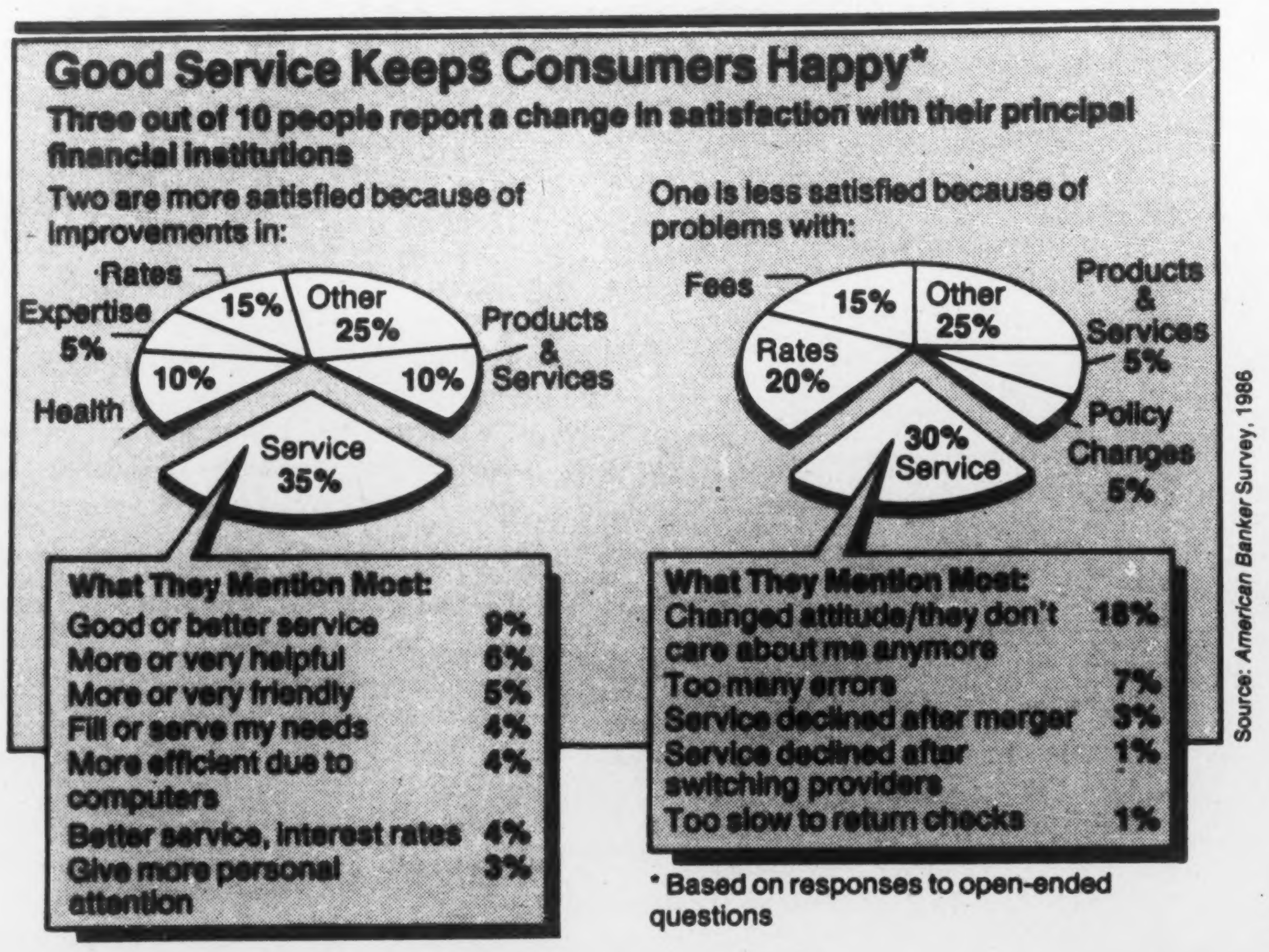
From the more satisfied individuals, better service receives the most mentions; from the less satisfied individuals it is a sense that the institution no longer cares about them that ismentioned most.

Although the subculture is small, less-satisfied consumers who regard a commercial bank as their most important financial institution complain about bad service more than other people.

Also, among the fifth of the public that has switched any financial services business from one provider to another over the past year, the desire to get better service ranks first — ahead of higher rates, lower fees, increased convenience of location, and changes in residence.

These are findings from a nationwide telephone survey of how consumers view the changing financial services industry. The survey was commissioned by the *American Banker* and conducted among 1,028 households this spring by Reichman Research Inc., an opinion research firm based in New Yorkand San Francisco. This is the third year that the poll has been conducted.

The fact that consumers are sensitive to the manner in which financial services are delivered to them was made clear in open-ended responses to questions probing why about a third have experienced a change in satisfaction and why 22% have moved any financial



Good Service Keeps Consumers Happy*

Three out of 10 people report a change in satisfaction with their principal financial institutions

What They Mention Most:	
Good or better service	9%
More or very helpful	6%
More or very friendly	5%
Fill or serve my needs	4%
More efficient due to computers	4%
Better service, interest rates	4%
Give more personal attention	3%

What They Mention Most:	
Changed attitude/they don't care about me anymore	18%
Too many errors	7%
Service declined after merger	3%
Service declined after switching providers	1%
Too slow to return checks	1%

* Based on responses to open-ended questions

Source: *American Banker* Survey, 1986

➔ Continued from Page 5

Bank Marketing Association.

His comments are underscored by the fact that, in the survey, it is younger Americans who are fueling the change in attitude away from "a Depression-era mentality," as the old ways are called by John G. Heimann, vice chairman, Merrill Lynch Capital Markets, formerly the comptroller of the currency and, before that, New York State superintendent of banks.

In 1986, more than twice as many people age 18-34 and 34-54 say they think letting nonbanks in the banking business is a very good idea than said that in 1985. Among people age 55 or more, the increase drops to half again as many.

Industry leaders say that the shift in attitude is a function of the fact that younger people are not set in their ways. They tend to shop around more. In fact, they may already have used nonbanks for financial services and found the experience satisfactory.

"This shows that, more and more, people trust these companies. It indicates that deregulation has really taken hold. The reservations people had are beginning to disappear," comments C.C. Hope, one of the directors of the Federal Deposit Insurance Corp., and until recently vice chairman of First Union Bank, Charlotte, N.C.

Additional survey data tend to support the idea that America's increased desire for deregulation could be a function of increased usage of nonbanks. For example, people with Sears, Roebuck and Co.'s Discover card — who generally use a wider variety of financial institutions than the rest of the public — tend to more strongly favor the idea of nonbanks in the banking industry. The *American Banker* survey contained about 70 people with Sears' Discover card.

The same is true also of Yuppies and upscale baby boomers — individuals age 25-44 living in dual-income households where the earnings are in excess of $40,000 annually. There were 72 people with these characteristics in the survey. These people are far more likely than the public to use diversified financial firms like Sears, American Express Co., Merrill Lynch & Co., Prudential Insurance Co., and Citicorp. They are also more likely to approve of the idea of nonbanks in the banking business.

About 63% of this group say they use one of a group of nine national giants compared with 48% of the general public. In addition to the diversified firms mentioned above, the list also includes Bank of America, the Fidelity group of mutual funds, Beneficial Corp., and Charles Schwab & Co.

There is every indication that they like dealing with these companies. When asked to choose between their most important or principal financial institutions and one of the giants as to which best meets their needs, people in this market segment are much more likely to choose a giant than their own institutions. More than half choose something other than their most important financial provider, while among the general public, the trend is in the opposite direction with more choosing their own institutions than choose a giant.

Asked to choose which is most in the forefront of change and innovation, these people are three and a half times as likely to name a giant as they are to name their own institutions, compared with the public, which is twice as likely to name a giant.

Despite a sense that the grass is greener on the other side of the deregulatory fence, more people in this group than in the general populace say they are very satisfied with their most important or principal financial supplier. However, they tend to choose this designation for commercial banks less frequently than other people.

'Reflects Attitude Toward Banks'

This factor may lend credence to comments from consumer advocates who say the shift in consumer attitudes "largely reflects the attitude of people towards commercial banks," says Michael D. Shea, national campaign director for Acorn, the Association of Community Organizations for Reform Now. "Low and moderate income people don't like banks. Heck, upper income people don't like banks. Lee Iacocca tears them apart."

He points out that low and moderate income Americans "have been increasingly cut out of the banking system" by high fees and policies that discourage their business.

The *American Banker* survey has nothing to offer on this point. It finds that fewer people earning under $20,000 than earning more than $50,000 say it would be very good for consumers if nonbanks got into the banking business, but fewer also say it would be not so good.

The survey does reveal that people earning under $20,000 are the least likely of any income group to use the commercial banking system: 62% use it compared with 82% of individuals earning $50,000 or more. There has been little change in these percentages since 1984.

Other polls have found that low-income people tend to feel deregulation isn't such a good idea, while upper income people are much more positive.

According to David Williams, vice president, Cambridge Reports Inc., Cambridge, Mass.: "People in the upper income and upper education levels think they've benefited from it. They are the people with money who can invest in new certificates of deposit and money market accounts. Low-income people don't feel that way. They are also more sensitive to branch closings." He says that black people, in particular, seem to think deregulation hasn't been good for them.

All low-income Americans don't feel that way, however, Mr. Williams says. A Cambridge Report survey from four years ago showed that 10% of the public would do their banking business at Sears or J.C. Penney Co. Most of them were lower income, lower educated residents of rural areas.

Acorn's Mr. Shea says that this remains true today. Among Acorn's members, predominantly low- and moderate-income people, "many, we know, would not mind having Sears or Penney provide these services."

But, he warns, a level playing field doesn't only mean equal privileges for all competitors, but equal responsibilities as well.

Acorn is currently doing a study that shows that "as Sears moves further into the financial services area, it is moving away from the low- and moderate- income base of people who have made it what it is today."

Sears is closing inner city stores the same way banks are closing inner city branches, he charges.

"We'd have no problem with them in the financial services area if the Community Reinvestment Act applied to them," he says, noting that getting the law to apply to Sears is on Acorn's agenda.

Fair is fair. ■

— L.G.

What Consumers Say

About companies other than banks getting into banking

“ **People who believe it's a very good idea say:**

I think Sears is doing a great job of financing. So maybe other companies would do an equally good job.

— An urban Georgia college graduate

Then the banks wouldn't monopolize all of the money for such high rates.

— A wealthy, middle-aged rural New Jersey woman

They are better to deal with and they do a lot of good for the consumer because they are used to doing for the consumer. Sears would be great in the banking business.

— An older, low-income California urbanite

I feel they would have more money to lend out.

— A rural Louisiana high school graduate

Competition is good for companies. If they diversify the company, consumers can more easily deal with them.

— An upper-income Michigan urbanite

business from one firm to another over the past year.

These results run contrary to the popular belief that consumer inertia and apathy will always reign supreme over irritation about long lines, high fees, surly or incompetent employees, and other factors that bother people about their financial institutions.

"In the past it has been thought that inertia prevents consumers from changing financial institutions simply for service-related reasons," comments David Reichman, whose firm conducted the study. "These findings appear to indicate otherwise."

Most Are Satisfied

He makes these observations even though the poll finds that an overwhelming majority of Americans are satisfied with their financial institutions. More than five in 10 say they are very satisfied, and about four in 10 say they are somewhat satisfied. Most people are just as satisfied today as they were in the past.

Other industry observers concur that this high level of satisfaction provides no support for the notion of complacency in a society that is clearly becoming more sensitive to quality of service.

"Research tells us over and over that value and quality today go way beyond the specific thing you're buying," says Barbara Feigin, executive vice president, director of research and marketing services for Grey Advertising Inc., New York. "In restaurants, supermarkets, airlines, all of the service industries, we're selling an experience, not a product. People do not have the time, inclination, or money to bother with bad service so they figure they'll go somewhere else and get what they want.

"We're just dealing with a much smarter and demanding consumer who has much higher standards," she adds. "Through television, people know there's more to be had."

Also, she mentions the fact that more women in the workplace means there are constraints on the amount of time available for consumers to accomplish daily tasks. "The time spent getting the services you need has become very valuable and you want it to go well. You've no time for hassles, problems, and headaches. You just want to get it done and feel good about the experience," Ms. Feigin says.

Perhaps surprisingly, the *American Banker* survey finds that women who moved any financial services business last year are less likely than men who moved their business to mention service issues as the reason. Women may, in fact, be less sensitive to poor service.

Irving Leveson, senior vice president and director of research for the Hudson Strategy Group, a Marsh & McLennan Companies Inc. subsidiary, agrees: "We have been arguing for a long time that quality of service is a much more important factor than has been recognized. As society becomes more affluent, attention to service will become more and more desired."

Since this is the first year *American Banker* asked people why they had experienced a change in satisfaction and why they had moved any funds around, it is impossible to use the data to show an increasing service sensitivity.

Backed by Other Polls

But, in addition to confirming comments by industry observers, the results dovetail with research done by other pollsters.

"When we recently surveyed people about whether certain institutions were efficient or inefficient, their response suggested that they based their determination on the level of service they were receiving," says Fabian Linden, director of the Conference Board's consumer research center.

He attributes this to "an enormous upgrading in the postwar generation's educational level. These are the people who've moved into the mainstream now."

Cambridge Reports, the Massachusetts-based public policy research firm, recently found that 44% of 1,500 people interviewed nationwide chose "convenience or ease with which you conduct your business" as the principal reason for choosing a financial services firm. The second choice — at 28% — was "quality of personal service," and the third — at 22% — was "the range of financial services."

David Williams, vice president at Cambridge, says that "convenience or ease with which you conduct your business" probably involves consumer concerns over convenience of location as well as quality of personal service.

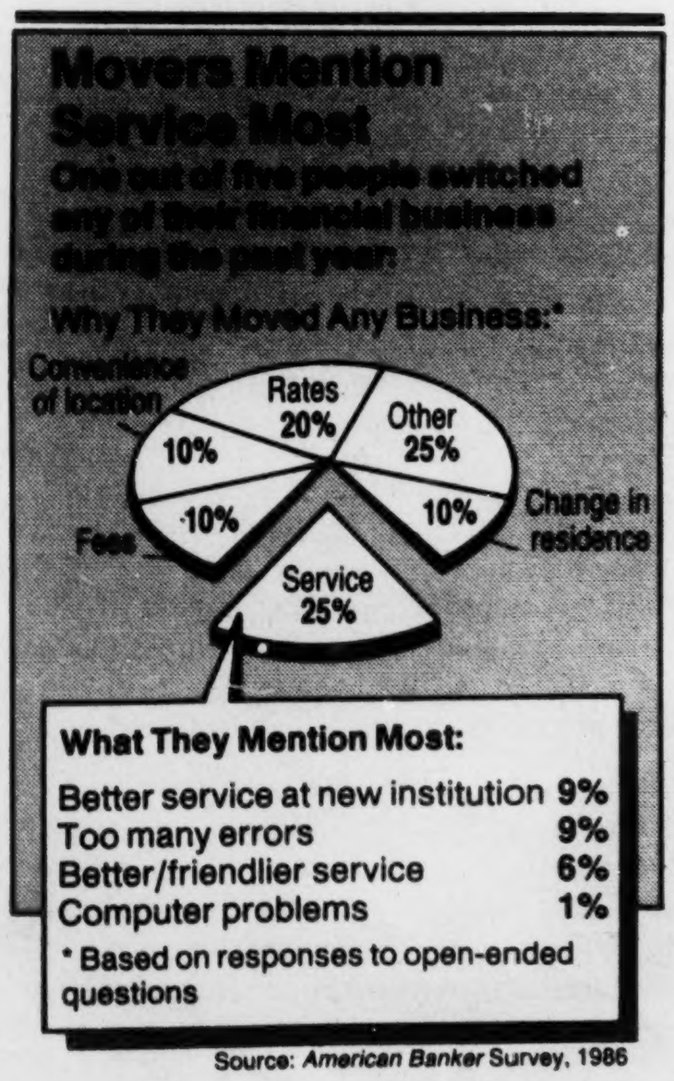
In the past, convenience of location has been thought to be the key motivating factor for choosing one financial services firm over another. Some industry analysts still say it is.

Jack Whittle, chairman of the Chicago-based community bank consulting firm of Whittle and Hanks, says that "in most communities, financial services companies are pretty much all equal in convenience: They're all on one of the corners downtown. If they're equal in convenience, then people will begin looking for something else to distinguish them. And service is a whole lot of that."

Of the three main types of companies offering banking services — banks, thrifts, and credit unions — the *American Banker* survey finds that commercial banks seem to have the greatest problem in the area of service. People calling a commercial bank their most important financial institution who are less satisfied today with their bank are the ones who most often mention that they feel these firms have a changed attitude, that they no longer care about consumers.

About 65% of the individuals who are in the less-satisfied category call commercial banks their most important financial institution, but the number of people in this subgroup is very small.

Also, the "more satisfied" bank customers less frequently mention improved service as a reason for their satisfaction than do the comparable group of thrift customers. That could mean banks give people less of a reason to mention better service.



What They Mention Most:

Better service at new institution	9%
Too many errors	9%
Better/friendlier service	6%
Computer problems	1%

* Based on responses to open-ended questions

Source: *American Banker* Survey, 1986

Mr. Whittle says: "People generally feel banks haven't caught on to service. They don't understand waiting in line. If you have to wait in line, it's bad service. If an institution closes at three, it sends a signal that they don't care about your business. The grocery stores are all open all night."

Other industry analysts suggest that another reason why banks are in this fix is that they've got the highest level of teller turnover among the three main types of banking companies.

"Not only is today's consumer changing but so is the person behind the teller counter. In addition to a customer base that's more alert to the quality of service, society has a shortage of young people willing to work for low wages. Turnover rates must be enormous," says the Conference Board's Mr. Linden.

He is right. When it comes to teller positions, bankers report that typical turnover ranges anywhere between 20% and 60% annually, depending on the institution's location. There is less teller turnover at thrift institutions and much less at credit unions, according to Frank Kelly, managing director of the Bank Administration Institute's human resources program services division.

Also, Mr. Kelly points out, credit unions generally pay more for tellers than banks or thrifts, and, as a result, he says, they get a higher caliber of individual willing to work those jobs. Typical pay scales for nonsupervisory tellers at commercial banks in 1985 ranged from $9,200 to $13,658, he says.

The high rate of turnover produces a constant stream of new employees who don't know customers. That means longer waits on line for consumers and, possibly, more annoyance as signature cards are checked of drafts cleared with supervisors prior to cashing.

Will people actually close down a financial relationship because the teller doesn't smile or call them by name?

The experts disagree over exactly what causes people to leave one financial institution for another: one horribly irritating event that may go unresolved, or a series of dissatisfying experiences. Probably, it can be either.

"People might not leave just because the teller doesn't smile, but they will when you start adding all of those negative straws on the camel's back," says Thomas Honey, president of the Consumer Bankers Association, the Washington, D.C.-based trade group.

'Very Service Sensitive'

Who leaves? The survey finds that as income increases, so does the likelihood that people have moved some part of their financial business. Also, users of brokerage firms and mutual or money market funds are also more likely than the public in general to have moved some money around. Younger people, aged 18-34, are more likely than older people, aged 55 and up, to have shifted funds.

Despite the perception of the public, bankers "are very service sensitive. There isn't a bank I know that doesn't constantly deal with the issue of how to improve service. They try hard, harder than the market gives them credit for," comments G. Lynn Shostack, president of the Coveport Group, a New York-based consulting firm, and formerly a Bankers Trust Co. executive.

Some of the consumers seem to notice, and they're just those people commercial bankers appear to want most as customers — the affluent.

Two years ago, 44% of consumers who earned $30,000 or more and who identified commercial banks as their principal institutions said they were very satisfied. That compared with 58% who were very satisfied in the group earning $30,000 or less.

Now, there has been a major change. The trend has reversed. This year 58% of consumers earning more than $30,000 say they are very satisfied with their commercial banks, compared to 50% earning under $30,000 who say the same.

It's a law of physics that, for every action, there is an opposite and equal reaction. Bankers who are "demarketing" to less-affluent segments of the population should be aware of the impact their policies may be having on the rest of America. The survey finds that less-satisfied people are more likely than those who are more satisfied or equally satisfied to have lost confidence in the banking and financial system. ■

How Credit Unions Have Lured Business Away from Banks

Highest Satisfaction Found Among Members

NEW YORK — Credit unions are the winners and commercial banks the losers when people shift any of their financial business around.

Moreover, for the third straight year that *American Banker* has conducted its national opinion poll, credit union members are America's most satisfied consumers of financial services. Compared to customers of commercial banks, one-third as many credit union members say they feel less satisfied now than in the past with their credit unions.

Among the fifth of the public that moved any financial business over the past year, the *American Banker* survey finds that credit unions made the strongest gains, picking up a net 8% of the moved business. Second were nonbank financial services companies, gaining 7%. Commercial banks lost 15%, and thrifts — savings banks and savings and loan associations — lost 2%.

Also, among consumers who moved business, it is credit unions whose members tend most to consolidate funds at credit unions. While 18% of credit union members who moved funds took money from credit unions, 67% brought money into these institutions for a total net gain of 49%. Banks experienced a net gain of 3% among people who call banks their most important or principal financial institutions. Thrifts gained 15% among movers calling those institutions their principal financial intermediary.

Seven out of 10 people use commercial banks, making them America's most popular financial institutions. Nonetheless, the findings raise questions about the success of recent bank efforts to get consumers to consolidate

Credit Unions: Page 8 ➡

→ Continued from Page 7

all of their financial services business in one place. It seems that, of the three principal depository institutions, credit unions are doing a better job — at least as an industry — in the relationship banking battle.

These findings come from a nationwide telephone poll of 1,028 households commissioned by the *American Banker* and conducted this spring by Reichman Research Inc., an opinion research firm based in New Yorkand San Francisco.

"The results indicate that commercial banks are the big losers in the battle for new consumer business — presumably because of noncompetitive rates, poorer customer service, or both," notes Molly Totoro, project director, Reichman Research, New York.

The survey shows that one-stop shopping for financial services is not yet the consumer's choice no matter which provider someone calls most important. A third of the public uses more than four financial services companies and only about a fifth uses just one. Credit union members are more likely than most people to use a variety of suppliers.

Regardless, credit union members who've experienced a change in satisfaction with their credit unions in the past year are five times as likely to say they are more satisfied as less satisfied. Bank customers are just about as likely to feel one way as the other about their banks. Those calling thrift institutions their principal or most important financial institutions are about twice as likely to say they are more satisfied as to say they are less satisfied.

The data show that credit union members are still the country's most satisfied financial services consumers. The not-for-profit depositories have held that distinction over the three years *American Banker* has conducted this survey.

"Credit unions are always the big winners across the board because they are extremely dedicated and very aggressive. When you are a member of a credit union, you own it, and that makes them the stiffest competition banks have," comments Jack Whittle, chairman Whittle and Hanks, the Chicago-based consulting firm.

Especially in the West, he adds, in states such as Utah, Nevada, and California, "some cities are completely dominated by credit unions. And they are very good when it comes to service, rate, and image."

The trend toward using credit unions is confirmed by the "rapid growth in credit union assets and the increasing interest in services offered at the workplace," notes Irving Leveson, senior vice president and director of research, Hudson Strategy Group, a Marsh & McLennan Companies Inc. unit.

According to the Credit Union National Association, assets at the nation's 17,383 credit unions grew 22.8% to $154.1 billion in the year ended May 31, 1986. Savings increased 23.4% and loans were up 12.4% over the same period.

Even though most credit unions are still small, limited-service organizations, CUNA data shows that more than half of the nation's 53 million credit union members belong to credit unions offering a wide range of services.

The Changing Image of Credit Unions

"The old image of credit unions as small, limited-service institutions is changing quickly," according to a recent CUNA analysis.

Credit union members seem to appreciate that. Among the 26% of people calling credit unions their most important financial institutions and who say they are more satisfied with these providers today than in the past, a broader range of services ranks first over improved service and better interest rates as reasons for the change in attitude. The base of individuals calling credit unions their most important financial institution is small — 13% of people surveyed — and the number of those saying they are more satisfied, even smaller — only 35 people.

The fact that credit unions are net gainers among people who've moved money is no surprise to William O. Adcock Jr., chairman, Synergistics Research Corp., Atlanta. He points out that commercial banks have historically held the majority of the consumer market, at least when it comes to checking accounts. Credit unions and thrift institutions have everything to gain in terms of consumer market share while banks have everything to lose, he says.

Thrifts place second to credit unions as net gainers of moved funds and are the only one of the three main financial services providers to have experienced a consistent downturn in the number of consumers saying they are less satisfied over the three years *American Banker* has conducted this survey.

One reason for that — and for the fact that "the thrift industry has been in such terrible financial shape is that they didn't ruthlessly automate and standardize. They maintained a personal service focus," says G. Lynn Shostack, a former Bankers Trust Co. executive who now heads her own New York services consulting firm, the Coveport Group.

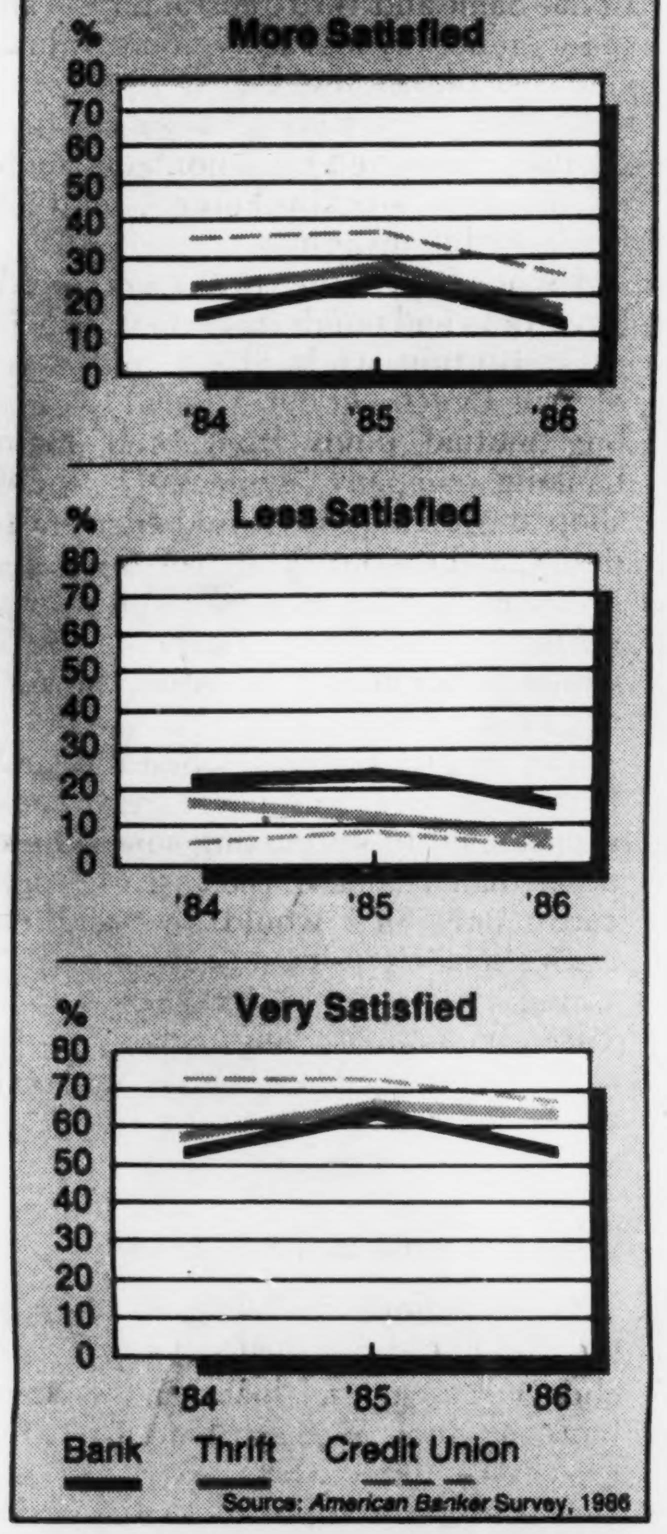
"The loyal customer base they've built through the tradition of friendliness is now buying the new services they're permitted to offer. That's probably why fewer are less satisfied," adds Thomas E. Honey, president of the Consumer Bankers Association.

The survey finds that older people who've experienced a change in satisfaction tend most to say they are less satisfied today. People living in small towns and rural areas say they are less satisfied about as often as they say they are more satisfied. And, although the numbers are small, it appears that people whose satisfaction changed and who use stockbrokers and mutual funds tend to say it changed for the worse, not the better. ■

— L.G.

Trends Over Time

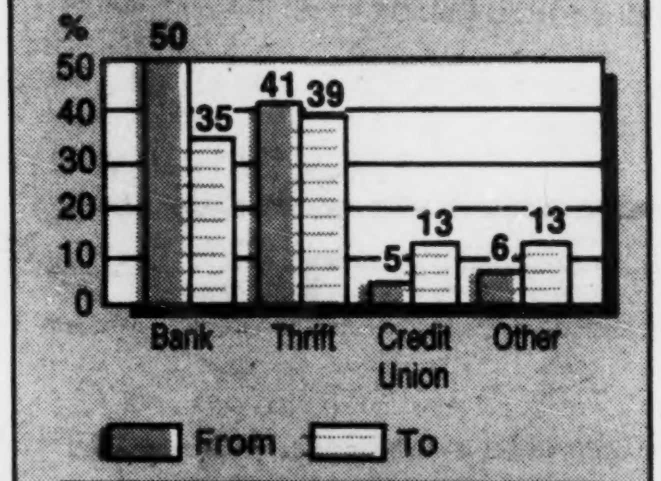
(Percentages of respondents commenting on satisfaction with their primary financial institutions).



Source: *American Banker* Survey, 1986

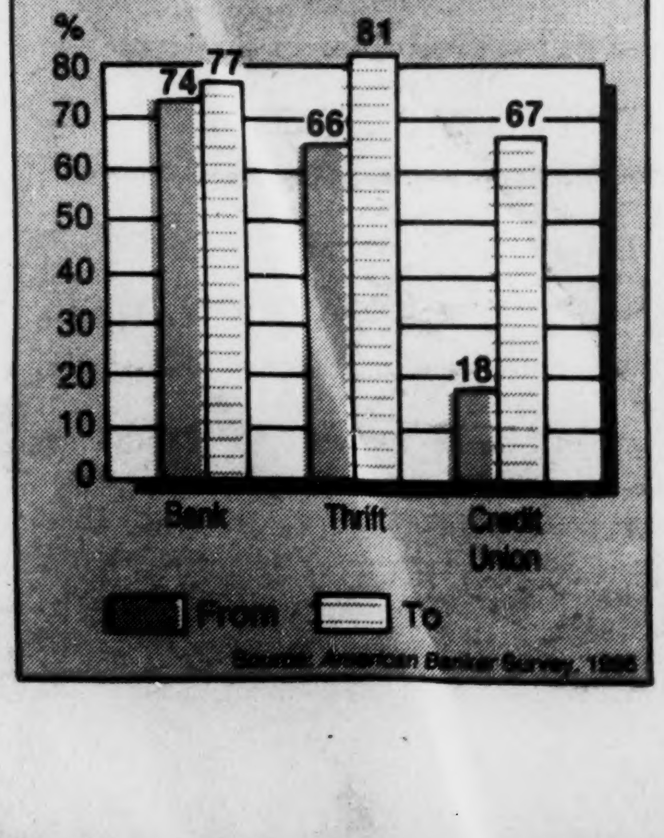
Where the Money Went:

22% of the public moved any financial business:



Relationship Banking: Who's Winning?

People calling a bank, thrift or credit union their principal institution moved money:



Source: *American Banker* Survey, 1986

More Consumers Say They Feel Neutral About Service at Financial Institutions

Fewer Say Service Improved And Fewer Find That It Declined

Data from the *American Banker* poll show that since 1985 there has been a decline in the number of people saying they are very satisfied with all of the federally insured providers of financial services — commercial banks, thrifts, and credit unions.

Also, fewer people say they are more satisfied and fewer say less satisfied today. In general, most people lean toward the neutral designations of equally or somewhat satisfied.

On its face, that trend would seem positive.

"When you think about it objectively, this should be an act which leaves you completely neutral," says Fabian Linden, director of the Conference Board's consumer research center.

"It's not like you're going to the doctor or dentist where it's so important how good a job they do. There's no reason to leave the bank in a state of euphoria because the teller took your deposit slip with a smile or walk away as a manic depressive because she got surly over your not signing your name right or crossing a 'T' or putting the account number under the endorsement," he adds.

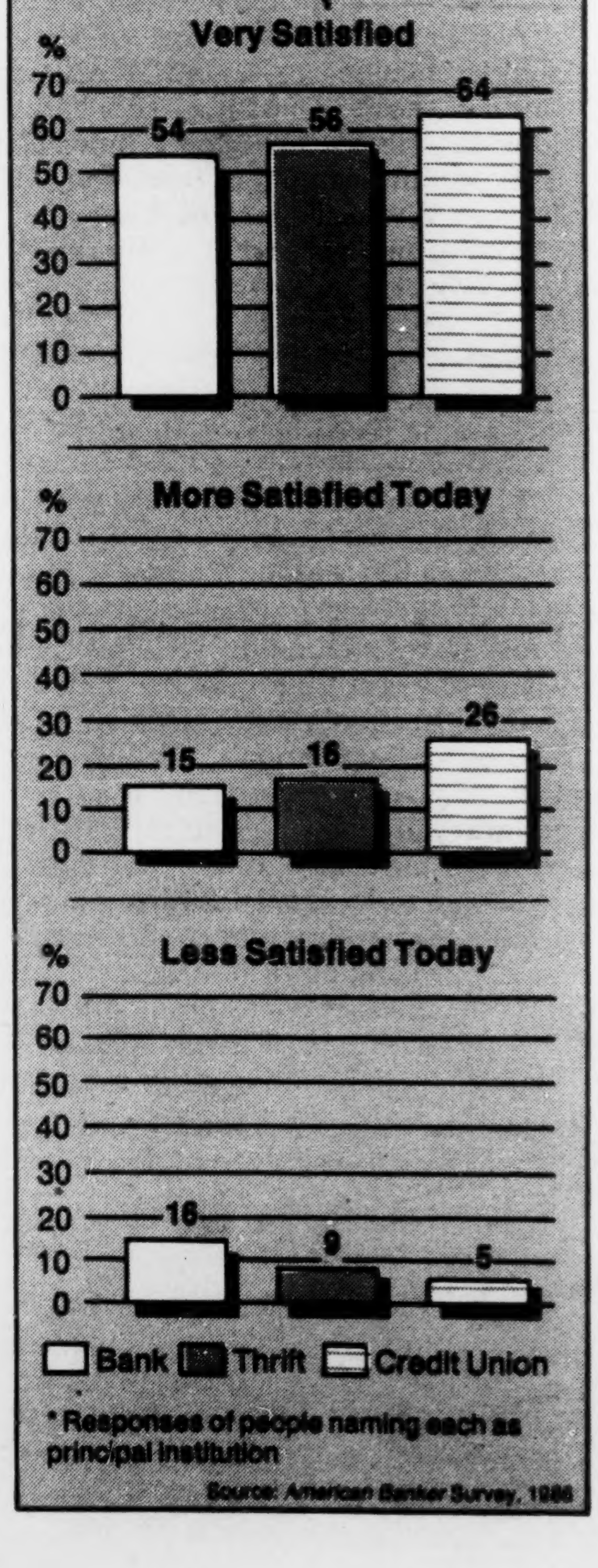
Other industry observers say that the increasing neutrality on the part of consumers could mean financial services providers are giving sufficient service to retain the business of most people but not enough to make them as happy as they have been in the past. Those observers can't say whether it is indicative of a more discriminating customer base or of customers that are so used to inferior service that they just don't expect anything better.

Some people think that the downturn in deposit interest rates over the past few years is behind the increase in neutrality.

"It's hard to hate the economy. You've got to be mad at somebody. It might as well be the banker," suggests William O. Adcock Jr., chairman, Synergistics Research Corp., Atlanta. ◆

— L.G.

How Consumers Rate Their Main Banking Institutions*



* Responses of people naming each as principal institution

Source: *American Banker* Survey, 1986

More Americans Think Financial Services Giants Provide Better Service Than Their Own Banks

NEW YORK — Within the past two years, an increasing number of Americans have come to believe that diversified financial services firms and nationwide banking companies can meet their needs better than their own principal financial institutions.

The *American Banker's* nationwide opinion polls in 1984 and 1986 asked consumers to choose which they think best meets their needs — the financial institution they name as most important to them or one of nine diversified financial firms such as Sears Roebuck and Citicorp.

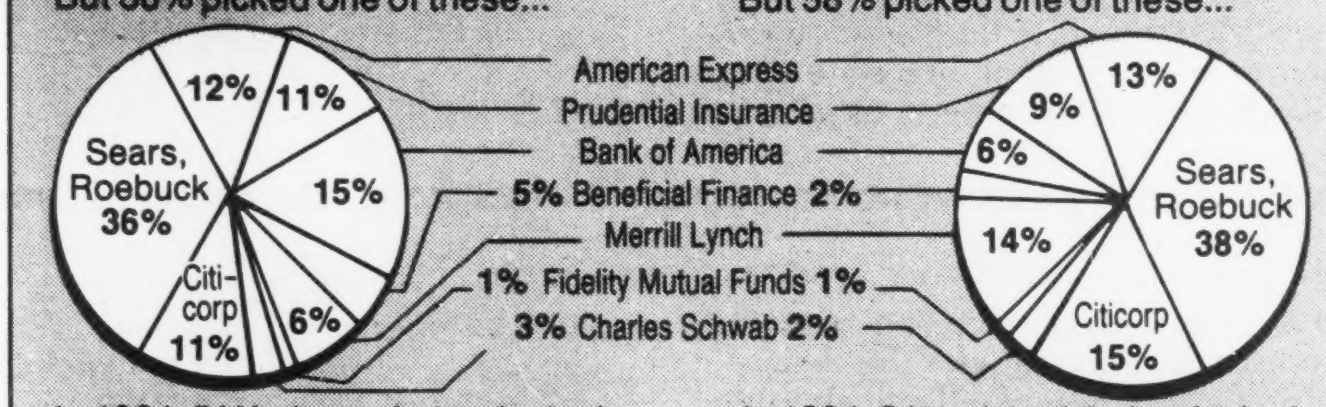
In 1984, they chose their own principal institutions over the nationwide giants by a substantial margin of 21%. Now, according to the latest poll, that gap has narrowed to a slim 8%.

On another measure — which financial institution is most in the forefront of change and innovation — primary banking firms picked up a few percentage points since 1984 but a majority of people still choose a nationwide banking or diversified financial services firm over their own main financial supplier.

Consumers Compare Their Financial Institutions With the Giants

46% said their principal financial institution best meets consumer needs.
But 38% picked one of these...

30% said their principal institution is most in the forefront of change and innovation.
But 58% picked one of these...



In 1984, 51% chose their principal institution and 30% picked a giant

In 1984, 24% picked their principal institution and 59% chose a giant

Source: American Banker Survey, 1986

Moreover, when consumers are assured of equal safety and convenience, significant percentages of the public say they'd shop for traditional banking services at nonbanking firms like Sears, Roebuck and Co., Merrill Lynch & Co., American Express Co., Prudential Insurance Co., and Fidelity Investments.

A fifth of the consumers say they'd seek a checking or savings account at one of these nonbanks; 15% would look to one of them for a mortgage; 14% for an installment loan, and 23% for an individual retirement account.

These findings are from the *American Banker's* latest national opinion poll. The survey was conducted by telephone among 1,028 households this spring by Reichman Research Inc., an opinion research firm based inNew York and San Francisco.

The data seem to point to dark clouds on the horizon for grass-roots banking companies. Especially ominous is the finding that it is younger Americans, under the age of 35, who are most eager to shop at a nonbanking firm for banking services. They are also highly likely to choose a nonbank or national banking company over their primary banking institution when asked which best meets consumers' needs. People age 18-24 are particularly likely to choose a nonbank or nationwide banking firm over their principal financial services provider.

One of the most likely groups to choose a nationwide supplier over local financial providers are people age 25-44 living in dual-income households where the wages are $40,000 a year or more. These people are the Yuppie era's favorite target market. Already, almost twice as many choose a diversified financial firm as choose their primary banking company when it comes to which best meets the needs of consumers such as themselves. The 1986 poll contains 72 people with these demographics.

'Handwriting on the Wall'

The survey's findings indicate that "the handwriting is on the wall" for banking companies that do not make every effort to meet consumer needs in this supercompetitive, deregulated industry, according to Allan F. Paro, director of advertising and marketing services for the American Bankers Association.

The ABA's own research confirms that younger Americans tend to feel disenfranchised from the commercial banking system, Mr. Paro says. He is most alarmed by the discovery that this is true even for young people living in small towns and rural areas, traditionally a bastion of positive sentiment about the commercial banking system.

There, in focus group interviews, people under 35 years of age told the ABA they would "be more apt to use anything but a bank, even to bank out of their back pockets, because they feel like the local bank doesn't want their business," Mr. Paro says.

"We're investigating. We think we're seeing real generational breakaway here," he observes.

The *American Banker* survey finds that individuals age 18-34 are the least likely of all age groups to say they are very satisfied with their most important or principal financial institutions. That could be because they are not yet finished formulating their values and baseline expectations.

This youngest group of Americans tends to choose banks as their most important institutions less frequently than they choose other financial companies. People age 18-34 comprise more than 50% of credit unions' customer base, and only 37% of banks' customer base. This does not bode well for bankers in the new deregulated world where the winning marketing strategy has consumer loyalty locked up early with packages of financial services.

"I would tend to take the *American Banker's* findings as a very serious threat, because by the time you have a majority of people choosing a nonbank here, the game is over," comments G. Lynn Shostack, president of her own consulting firm, Coveport Group, New York. She is a former Bankers Trust Co. executive and founding member of Greenwich Research Associates.

"If the next generation's mind is being successfully wooed by institutions other than banks, that means that when this generation passes, it will be rough indeed to recapture that franchise," she warns.

Satisfaction Breeds Loyalty

Keeping customers satisfied is crucial to keeping their loyalty, the *American Banker* survey finds. Those people who report that they are less satisfied with their main banking companies now than in the past tend to choose anything except those firms as best meeting consumer needs. (Available choices for principal institutions included commercial banks, savings and loans, savings banks, credit unions, stockbrokers, money market and mutual fund firms, insurance companies, and finance companies.)

A marked exception to this rule is credit union members, who tend to pick their credit unions instead of a national conglomerate for best meeting consumer needs. This is true even though credit union members seem to use a wider variety of financial services firms than people who call banks or thrifts their most important or principal financial suppliers.

One reason for their loyalty, other survey data show, is that credit union members are the nation's most satisfied consumers of financial services. Commercial banks ranked last among banks, thrifts, and credit unions in satisfying the people who call them their primary financial companies.

As deregulation proceeds, commercial banks may be in big trouble, the data imply. This is because the new consumer of the future who says he would be likely to go to a nonbank for banking services may not be so interested in buying the same services from a bank.

The survey finds that it is the traditional bank and thrift customer — an older, generally less affluent individual — who says he would go to his principal financial company for a service historically delivered by a nonbank such as discount stockbrokerage, mutual funds, or life insurance.

About a fifth of the consumers would buy stocks and bonds from their principal institution, while 41% would go to Merrill Lynch. About a fourth would buy mutual funds from their main banking company, while 20% would shop at Merrill, 16% would choose Fidelity, and 6% Prudential. And for life insurance, 15% would go to their own institutions while a whopping 53% would rather go to Prudential, the survey says.

The outlook is dismal when it comes to those services consumers are already accustomed to purchasing somewhere other than a bank. In the case of credit cards, only 35% would choose their main banking company while 27% would choose American Express and 19% would choose Sears.

For financial advice, 47% would pick their principal institution while 21% would go to Merrill Lynch.

Hope for Banks in Thrift Data

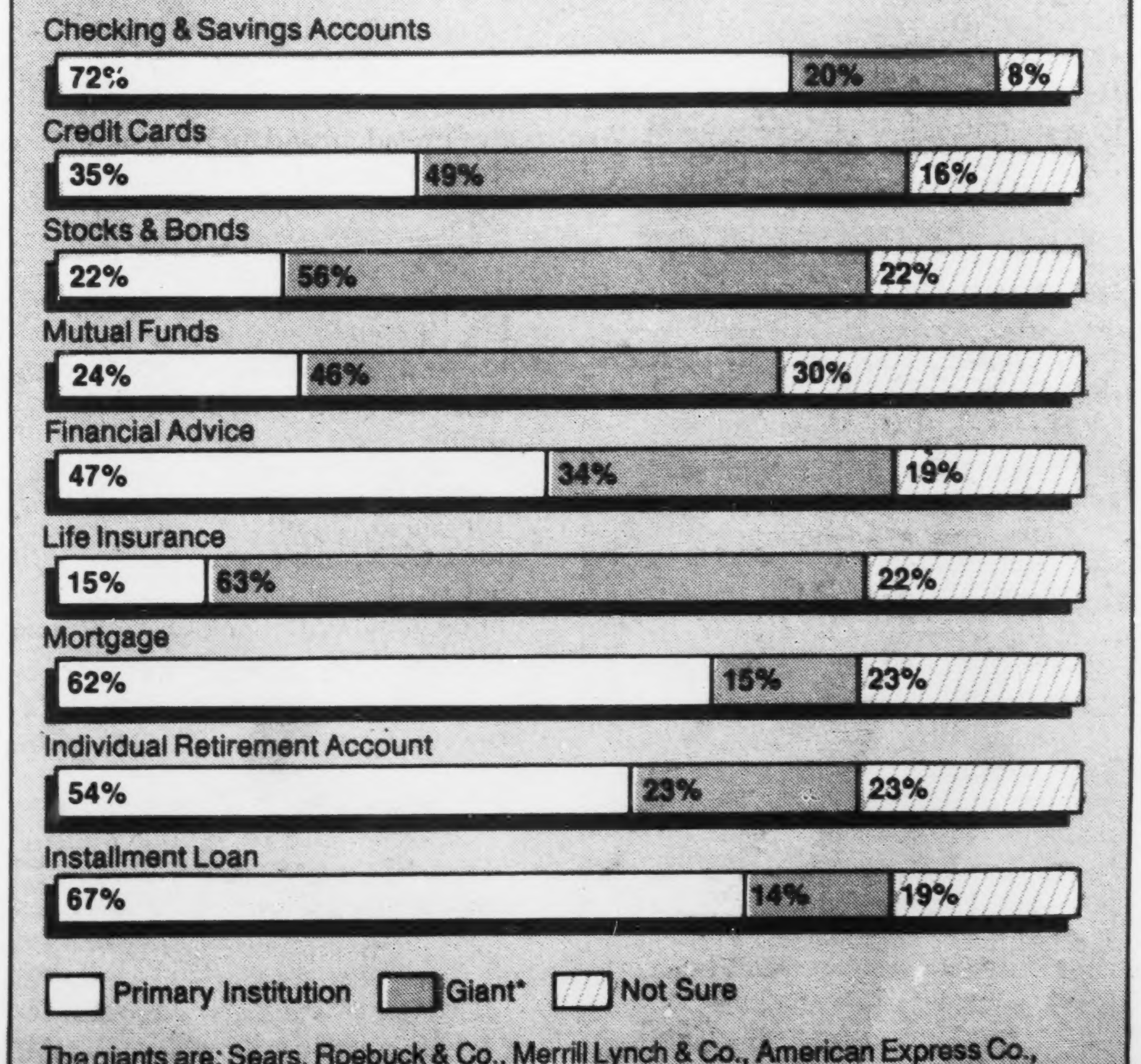
There is hope for banks in some of the findings about thrifts: People who choose savings and loans and savings banks as their primary banking firms are more likely than others to say they'd shop there for stocks and bonds and life insurance.

Since thrifts have offered these prod-

Diversified: Page 10 ➸

The Financial Services Shopping Center of the Future

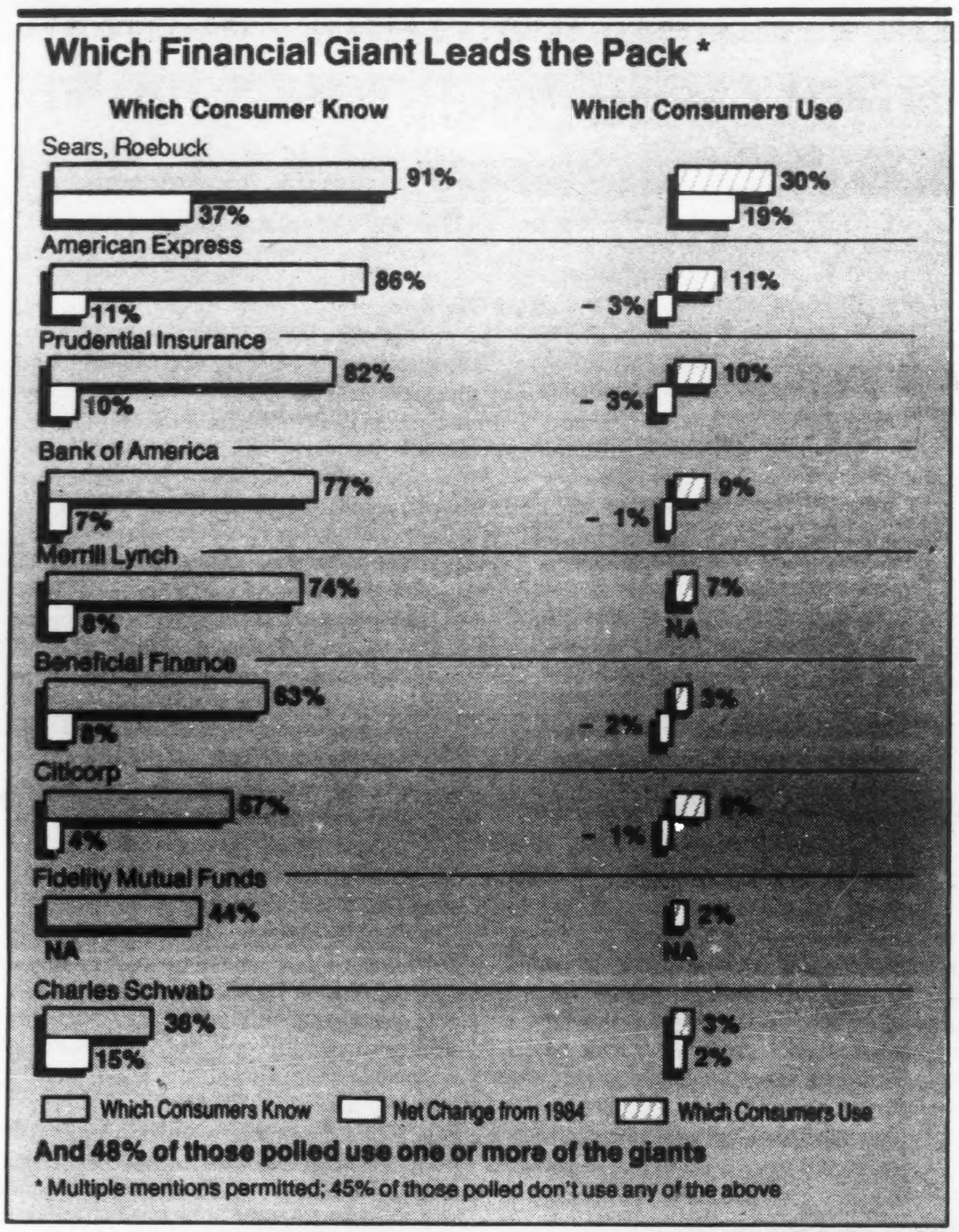
Given equal safety and convenience, where would you be most likely to shop for:



The giants are: Sears, Roebuck & Co., Merrill Lynch & Co., American Express Co., Prudential Insurance Co., and Fidelity Investments.

Source: *American Banker Survey*, 1986

Sears Bumps American Express From Top of Consumers' List



Which Financial Giant Leads the Pack *

And 48% of those polled use one or more of the giants

* Multiple mentions permitted; 45% of those polled don't use any of the above

Source: *American Banker* Survey, 1986

NEW YORK — American consumers see Sears, Roebuck and Co. as the brightest star in the financial services firmament.

According to the *American Banker's* new national opinion poll, Sears ranks above eight other giant, nationwide financial companies as the one more people know, use, perceive as best meeting consumer needs, and choose as foremost in change and innovation.

Also, in just two years, there has been nearly a tripling in the number of consumers who say they buy Sears financial services — from 11% in 1984 to 30% today.

From its own research, Sears executives reveal that the number of people who've visited one of its in-store financial centers has more than tripled, from 3% of the public in mid-1984 to 10% today. There are Sears financial centers in 327 of Sears' 833 retail stores. These booths house Allstate insurance, Coldwell Banker real estate, and Dean Witter brokerage personnel.

Two years ago, when the *American Banker* first probed consumer attitudes about the national conglomerates, American Express Co. was the people's choice on every measure except change and innovation. Sears topped the list then in that category.

Now, American Express has been pushed down into second place on measures of familiarity, usage, and meeting consumer needs. It maintains its third-place position behind Merrill Lynch & Co. on the measure of which company is most in the forefront of change and innovation.

These findings come from the *American Banker's* third national consumer opinion poll. The survey was conducted by telephone among 1,028 households this spring by Reichman Research Inc., an opinion research firm based in New York and San Francisco.

As part of the research, consumers were read a list of nine diversified financial companies and asked four questions: With which are they familiar? With which do they do business? Which best meets the needs of consumers such as themselves? Which is most in the forefront of change and innovation?

In 1984, 44% of consumers surveyed said they did business with one or more of eight national conglomerates on the list. This year 48% say they do business with one or more of nine. (Fidelity Investments was not included in 1984.)

Their responses indicate an unprecedented boom in financial services business over a two-year period for the first-ranked company, Sears. According to this data, about a fifth of the public started going to Sears for financial services in the past two years.

A Transfer of Awareness?

This dramatic catapult to the top of the heap is well documented by Sears' own research, although executives there wonder if some of the increase found by the *American Banker* doesn't "include a transfer in the customers' mind of our retail credit card business awareness to our financial services business." This comment comes from Allan B. Stewart, vice president, corporate planning.

Such an eventuality is far from out of the question considering that Sears' chief target market for financial services is some of the 40 million households with Sears credit cards: those age 25-55 living in households where the earnings are $30,000 a year or more. Two years ago there were 20 million households with Sears cards, and Mr. Stewart says the growth has been steady.

He also mentions that advertising for Sears' new financial services card, Discover, could be having a reinforcing effect on consumer perceptions of Sears as a financial services company.

In terms of bottom line contributions, the share of net income generated by Sears' financial services business increased 17 percentage points between the end of June 1984 and the end of June 1986. It grew from 57% of the $569.8 million first-half 1984 net income to 74% of the $480.2 million first-half 1986 net income.

In terms of awareness, Mr. Stewart says Sears' research confirms *American Banker's* finding that 91% of the public is familiar with Sears as a financial services company. That figure represents a gain of 37 percentage points in two years, according to the newspaper's calculations.

When Sears embarked upon its foray into the financial services business in 1982, he adds, executives set as a goal the achievement of a 70% awareness level among the public. The 91% figure surpasses their expectation by 21 percentage points.

Also, recent Sears research shows that the company is named on an unaided basis by a solid 31% of the public when consumers mention a diversified financial services firm with which they'd like to do business. Their research shows that, since 1984, there has been a 70% increase in the number of people saying they'd go to Sears in the future for financial services.

All of this, plus the tripling in the number of people visiting financial centers and the general increase in business throughout Sears' entire financial services network, leads Mr. Stewart to comment that "it looks like we're accomplishing what we set out to do."

Financial Services Emphasis

If there are more Sears credit card customers now than two years ago in the additional 19% of consumers who say they buy financial services from Sears, Mr. Stewart says it could be due to increased public awareness.

"Our advertising in the last two years has really stressed financial services. Also, the Discover card advertising has been out there now for several months," he says.

"So, the relationship between Sears' credit cards and its financial services is much more tied together than it was two years ago," he believes.

But he thinks a major reason for the stellar Sears results is the close tie-in of financial services to the retail operations.

"We have had a significant increase in the in-store centers, which really localizes our reputation for trust," he says. "A lot more people see them as they walk through our retail stores." Three out of four Americans visit a Sears store yearly.

There were 277 Sears financial centers at the end of September two years ago. Now there are 327, and Mr. Stewart says Sears plans to add another 25 over the next year and a half, expanding at a far slower rate into remodeled and new stores.

A Question of Expenditures

Some financial services executives would like to attribute the *American Banker's* survey findings about Sears to increased advertising expenditures in the six months prior to the 1984 poll compared with the six months prior to the 1986 poll.

But Mr. Stewart denies that Sears spent any more money for financial services advertising during first-half 1986 than first-half 1984. Advertising expenditures for this category of Sears business have been relatively flat for the past three years, he says, "although we moved some of that money around slightly."

What could be happening, he suggests, is that "we're running very effective marketing campaigns for our individual companies. Then, we tie them

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➜ Continued from Page 9

ucts for a longer time than banks, these findings may indicate that thrifts have done a good job and that, once exposed to these services at a traditional banking firm, people might choose them over nonbanks for stocks or insurance.

At least one industry leader thinks so: "Banks have all been looking for new avenues, offering new services, trying to recapture some of the young marketplace by buying discount brokerage companies, getting into options trading, and mortgage banking. They will eventually get their share of the marketplace, and that too is deregulation," comments C.C. Hope. Mr. Hope is a director of the Federal Deposit Insurance Corp. and, until recently, was vice chairman, First Union National Bank, Charlotte, N.C.

The fact that banks have been taking a more innovative tack in marketing these services might be one of the reasons primary banking companies have made some inroads against national giants over the past two years when it comes to which is most in the forefront of change and innovation.

Two years ago the gap between main banking firms and giants was 35%; this year it narrowed to 28%, although national giants are still the winners with 58% of the public choosing them.

About four in every ten people choosing a nationwide giant on this measure choose Sears. Nearly as many pick Sears for best meeting their needs. Nationwide banking companies score second on both measures this year. Citicorp ranks second for being in the forefront of change and innovation, and Bank of America, second for best meeting consumer needs. Third on innovation is Merrill Lynch, and American Express is third on meeting needs.

The fact that Citicorp and Bank of America do so well is heartening to industry observers, who comment that these large banking firms have led the financial industry when it comes to pushing the limits of existing laws and conducting the kinds of marketing campaigns that are particularly attractive to consumers.

Developing different ways of marketing the myriad of new products that appeal to tomorrow's consumers is critical, Mr. Hope says, if banks are to succeed in the future.

"The commitment of top management is required to make certain that completely different and innovative marketing ideas come forward," he adds.

"Who knows, maybe if you do a survey like this when my grandchildren are 55, traditional institutions will be something other than banks and something else will come along to challenge them," Mr. Hope says. "That's the creativity of the American marketplace; someone is always coming forward with a new idea." ■

— L.G.

35% of Consumers Say They're Likely To Accept Sears' Discover Credit Card

NEW YORK — Thirty-five percent of consumers say they are likely to accept Discover, the new credit card introduced by Sears, Roebuck and Co., according to a recent survey commissioned by the *American Banker.*

The newspaper's survey also finds that nearly half of consumers are aware of the Discover card.

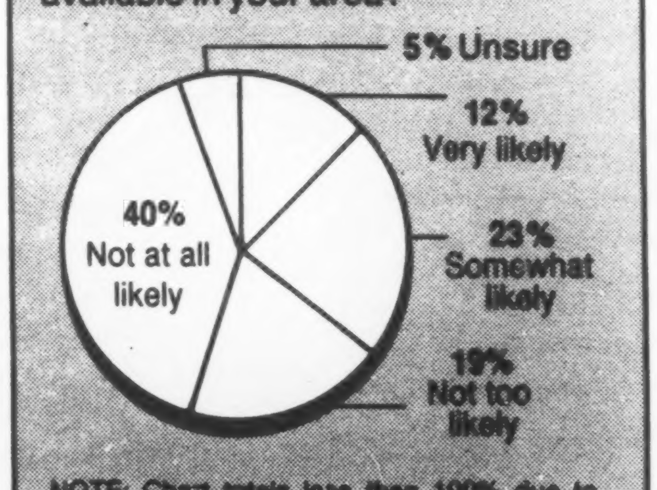
But Sears has been marketing the card nationwide only since January, so it is too soon to measure the most important factor: use.

The *American Banker's* survey also evaluated consumer interest in a range of financial services that Sears could offer through the card.

The newspaper's third annual survey, "How Consumer America Views the Changing Financial Services Industry," gauged attitudes on a range of issues. The nationwide telephone survey polled 1,028 adults between May 30 and June 18. It was conducted by Reichman Research Inc., an opinion research firm in New York City and San Francisco.

Discover's Appeal

How likely would you be to obtain the Discover card if it were available in your area?



NOTE: Chart totals less than 100% due to rounding

Source: American Banker Survey, 1986

Consumers' awareness of Discover impressed several industry observers. Asked if they had read, seen or heard of the card, 46% of consmers say yes.

"Forty-six percent sounds very high," says Edward D. Miller, sector executive vice president in charge of retail banking at Manufacturers Hanover Trust Co.

Bankers are keeping a close watch the progress of the Discover card, which is designed to compete directly with MasterCard and Visa.

Sears is spending $40 million this year on television advertising alone for Discover. The company also has taken out print ads and has embarked on a major direct-mail campaign to promote it to holders of Sears credit cards.

By comparison, Visa U.S.A. Inc. and MasterCard International Inc. are spending totals of about $25 million and $40 million, respectively, on advertising this year.

Sears also is positioning the Discover card to serve as the linchpin for a nationwide banking operation. Cardholders can use the card to get cash at automated teller machines and make deposits to a special savings account.

Sears first began issuing Discover in Atlanta last October. The company now has issued 4.7 million cards and is aiming for 10 million to 12 million accounts by the end of 1987.

According to the *American Banker* survey, 6.8% of consumers say they have the card.

Those who do not have the card were asked how likely they would be to take Discover if it were available in their area. A total of 35% say they are likely to take it — 12% responding "very likely" and 23% saying "somewhat likely." Another 19% say "not too likely;" 40% say "not at all likely;" and 5% of consumers polled say they are unsure.

The number of people who say they are "very likely" to take Discover is low, especially since nearly half of the consumers polled say they have heard of the card, says Tom F. Chapman, executive vice president in charge of retail banking at First National Bank of Atlanta.

But Sears says it is not especially worried.

"Nobody needs another credit card," admits Robert E. Wood, chief executive officer of the consumer banking division at Sears' Dean Witter Financial Services Group.

Because Discover carries no annual fee until at least 1988, it costs consumers nothing to take the card. The annual fee provides an important revenue stream at bank credit card operations.

Sears expects to lose $115 million after taxes from its Discover operation this year because of advertising and start-up costs.

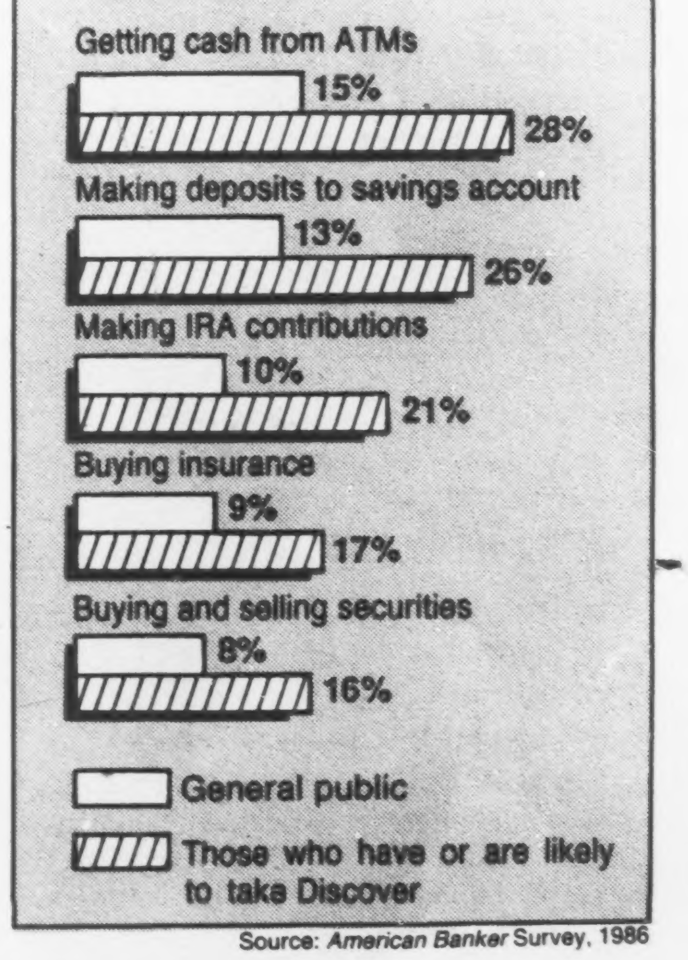
The real issue is whether consumers will use the Discover card instead of a bank card for purchases.

"You want to find out from the consumer: What value do they perceive

Discover: Page 12 →

Financial Services Through Discover

These percentages of consumers said they'd be very interested in the following services if offered through the Discover card



Source: *American Banker* Survey, 1986

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back to the Sears name under the umbrella, 'a member of the Sears Financial Network.' "

Also, other sources mention that Sears' merchandising business is always a heavy national advertiser. There could be a spillover from this advertising onto awareness of the financial services business, they say.

Mr. Stewart says you don't have to increase advertising expenditures to increase awareness: "The initial result of advertising is awareness, hopefully followed by a change in your image, and next people will want to consider you for financial services."

"We're three years into the campaign now, and it could be that this process is starting to work — it's converting down to customers," he says.

Conflicting Data

Data compiled by the Television Bureau of Advertising, a not-for-profit organization that tracks such matters, appear to conflict with Mr. Stewart's remarks. The bureau's numbers say that Sears spent more in the first half of 1986 than in the first half of 1984, but almost all of the increase went to pushing its new Discover card, a factor Mr. Stewart did not include in his analysis of expenditures.

The TV ad bureau says Sears spent more than any other single financial services advertiser in first-half 1986, more than American Express, Metropolitan Life Insurance Co., MasterCard International, Citicorp, Beneficial Corp., and Prudential Insurance Co., in order of expenditures.

The advertising trackers say that, in the first half of 1984, Sears spent $24.7 million on television advertising for financial services, while in the first half of 1986 it spent $42.8 million. Discover advertising accounted for about $15 million during 1986, the bureau says. There wasn't any Discover advertising in 1984. These figures are for television advertising only.

Which Best Meets Consumer Needs

Sears, Roebuck	20%
American Express	6%
Bank of America	5%
Citicorp	5%
Prudential Insurance	5%
Merrill Lynch	4%
Beneficial Finance	2%
Charles Schwab	2%
Fidelity Mutual Funds	1%
None	7%
Not Sure	41%

Note: Figures in chart do not add up to 100% due to rounding

Source: *American Banker* Survey, 1986

Including Discover, the TV bureau figures show a 74% increase for Sears' financial services advertising in first-half 1986 compared with first-half 1984, when the *American Banker* first surveyed consumers about these nonbank financial firms.

Seen side-by-side with a 3% decline in American Express advertising expenditures during first-half 1986 compared with first-half 1984, the Sears data compiled by the TV bureau would provide perspective for American Express' upset in the 1986 *American Banker* survey.

Which Is Most In the Forefront of Change and Innovation

Sears, Roebuck	17%
Merrill Lynch	6%
American Express	5%
Citicorp	5%
Prudential Insurance	4%
Bank of America	3%
Beneficial Finance	1%
Charles Schwab	1%
Fidelity Mutual Funds	1%
None	7%
Not Sure	49%

Note: Figures in chart do not add up to 100% due to rounding

Source: *American Banker* Survey, 1986

But even American Express executives say the correlation isn't clear.

"You can't draw a neat cause-and-effect relationship between the survey results and advertising expenditures," says Walter Montgomery, senior vice president, corporate communications.

Besides, he notes, "within the market segments we are most concerned with, American Express is more than holding its own. We don't see the kind of trend your survey shows."

In 1984 when consumers were asked which of the companies on the list best meets the needs of consumers like themselves, American Express ranked first with 10% of all the mentions. In the 1986 survey, American Express received 6% of the mentions, while Sears — mentioned by 9% in 1984 — received 20% of the mentions in 1986.

Mr. Montgomery can't understand it. "Our most recent customer service data shows that vis-a-vis the bank cards, we are considerably out in front in terms of customer service satisfaction.

"The responses we get in our surveys are based on the quality of service we give and the quality of product, not on the advertising. We put hundreds of million dollars into quality of service each year," he notes.

Why didn't people notice?

"I'm not sure they didn't notice. You didn't segment the marketplace as finely as we might," Mr. Montgomery says.

Additionally, he mentions that, since 1985, American Express has focused on advertising individual brand identities for its subsidiary companies, deemphasizing the name American Express and even taking it out of the legal monikers, Shearson Lehman Brothers, and IDS Financial Services.

Sears, on the other hand, reinforces its name at the end of every television advertisement for a subsidiary, saying, "a member of the Sears Financial Network."

The one difference the *American Banker* finds in the awareness level for the two giant competitors is that people age 18-24 are comparatively much more familiar with American Express than Sears. This is probably a function of American Express' intense marketing to college students.

When it comes to who does business with each firm, Yuppie baby boomers, age 25-44 in dual-wage earning households where the income exceeds $40,000 annually, choose Sears only about as much as the general public. They choose every other major provider twice as much as the public.

"They're snooty," comments one analyst about the Yuppies, "and Sears still has a blue-collar image."

Unlike other people who choose American Express, Yuppies pick Citicorp second to Sears as best meeting their needs. Similarly, instead of Merrill Lynch, they choose Citicorp second to Sears as being most in the forefront of change and innovation.

There is a three-way tie for third place on which best meets consumer needs in the 1986 *American Banker* survey among Bank of America, Citicorp, and Prudential Insurance.

For being in the forefront of change and innovation, American Express and Citicorp are tied for third, with Prudential coming in a close fourth. ■

— L.G.

Consumers Find Credit Card Interest Too High And Say They Would Switch to Cheaper Banks

But Some Bankers Say Customers Aren't Shopping

NEW YORK — A majority of consumers think credit card interest rates are too high, and many of them say they would switch credit cards for a "much lower" rate, according to a recent survey commissioned by the *American Banker.*

The survey also finds a higher sensitivity to interest rates among the most profitable credit card customers — those who carry outstanding balances from month to month.

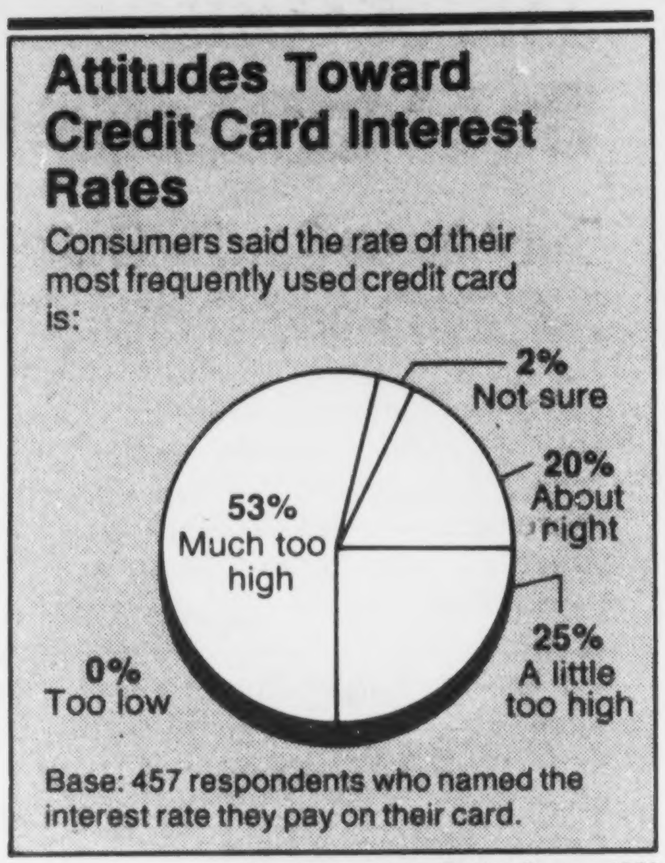
The newspaper's third annual survey gauged consumers' attitudes on a range of issues in the financial services industry. The nationwide telephone survey polled 1,028 adults between May 30 and June 18. It was conducted by Reichman Research Inc., a New York City-based opinion research firm.

This is the first of two articles on how consumers view credit cards.

For years, the prevailing wisdom in the industry has been that consumers are basically insensitive to credit card interest rates. Now, it appears that bankers are divided over that issue.

"Our experience to date has been that the credit card user is not that sensitive to rates," says Henry J. Silver, a vice president at Wells Fargo Bank in San Francisco.

"We believe that consumers do pay attention to rates and will change," counters Carl M. Harris, first vice president at People's Bank in Bridgeport, Conn.



Attitudes Toward Credit Card Interest Rates

Consumers said the rate of their most frequently used credit card is:

Base: 457 respondents who named the interest rate they pay on their card.

Source: *American Banker* Survey, 1986

As competition in the credit card business intensifies, some analysts are predicting price-cutting in the form of lower interest rates. But for many banks, the question is how severely rates must be cut to attract new customers.

A few months ago, People's Bank and other Connecticut institutions slashed their interest rates to 12% or less, while competing card issuers have maintained their rates of at least 18%. Connecticut bankers report that the lower rates are wooing away customers from other banks.

But at many banks, a rate cut of such magnitude would drastically lower income and turn the credit card operation into a money loser, bankers say.

"A 'much lower' rate probably equates to five percentage points lower," says Mr. Silver, who believes such a reduction would endanger the profitability of Wells Fargo's card operation.

Older Accounts, Lower Losses

Wells, however, has lowered its credit card interest rate from 20% to 17% for customers who have held the bank's cards for at least five years. Loan losses are lower on older accounts, so the bank can afford the cut, which also serves as a move to guard against low-rate competition, Mr. Silver says.

"From our research, we feel the consumer perceives the credit card as a service more than a vehicle for borrowing money," says Charles M. Cawley, president of Maryland Bank NA in Newark, Del., a subsidiary of Maryland National Corp. in Baltimore.

"However, I think they are sensitive to [the rate]," he adds. "But I think if the interest rate is in the reasonable band, they are not."

What is the reasonable band? Anywhere from 15% to 18%, Mr. Cawley says. He thinks consumers become "a little sensitive" when rates reach 19% and above.

Maryland Bank cut its credit card rate from 18.8% to 17.9% in January, and Mr. Cawley says that he thinks the bank has picked up market share.

"We think we are taking some share from banks," says Charles R. Walsh, senior vice president at Manufacturers Hanover Trust Co. in New York.

Manufacturers Hanover cut the rate on its credit cards from 19.8% to 17.8% last October and launched a massive marketing campaign in an effort to attract new accounts.

A few dozen small and medium-size issuers have cut their rates over the last year or so. But most of the top card issuers, which represent a large portion of the market, have not moved their

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➵ Continued from Page 11

from the Discover card?" says Mr. Miller.

The card becomes attractive to consumers once they recognize its special features, Mr. Wood says. To promote customer use, Sears is offering rebates for purchases made with the Discover card and has deals with certain merchants to discount goods and services when purchased with the card.

These values are not immediately recognizable, Mr. Wood says.

"There's no way that message can get across on television," he says. "That really has to be done by direct mail."

In addition, now Sears is rolling out a new ad campaign — called "Smart Move" — promoting the card's nationwide access to cash, its lack of annual fee, and its rebate features. The ads also will tout Discover for specific purposes, such as access to cash at ATMs, for purchases in stores, and use at travel locations.

Industry experts are not surprised that 40% of the surveyed sample expresses no interest in the Discover card, because a certain portion of the population always has avoided credit cards. The *American Banker* survey finds that 29% of consumers do not have any credit card.

The survey also finds relatively little distinction by age or income among consumers who have, or are interested in getting, the Discover card.

However, a noticeably smaller percentage of those 55 years old and older are interested in the card. Traditionally, many older people are skeptical of credit cards in general.

"We are not targeting our message to any particular age group," Mr. Wood says. The company has focused its marketing efforts on current Sears cardholders, who are represented strongly among those aged 25 to 44, he adds. "Twenty-five to 44 is the core if you look at the expenditures."

The *American Banker* survey shows a disproportionate level of interest in Discover among banks' most profitable credit card customers — those who carry outstanding balances from month to month, known as revolvers.

"I'm not surprised by that," Mr. Wood says, citing independent surveys in Atlanta in which consumers said they took Discover primarily to get another credit line.

"I don't think that that bothers me," observes Mr. Chapman of First Atlanta. "The rollers are the ones who feel they can manage one more purchasing instrument.

"So far, they've not been able to make inroads," he adds, referring to Discover's experience in Atlanta, the first market for the new card. "We've not found any impact in the marketplace here in cardholder dissension or cardholder flight."

However, Discover is more than a credit card. Sears hopes to establish a nationwide bank through its plastic.

About one-quarter of those who say they have the Discover card or are interested in getting it are very interested in making savings account deposits through the card, according to the survey.

"The 26% figure is higher than I would expect," says Helene Duffy, principal in the New York City consulting firm of Duffy & Duffy Inc. "That's the one that banks should be most concerned about."

The Discover savings account resembles a money market deposit account. Account holders can write up to three $500-minimum checks per month.

Discover customers have been opening deposit accounts with average balances of at least $10,000, according to one securities analyst, who requested anonymity.

"It is much higher than we had planned," Mr. Wood says, declining to name the average balance size.

Some large banks have tried to collect deposits from out-of-state customers by mail, with mixed results. It has proved a difficult task because such efforts often attract "hot money," which moves from bank to bank in search of the best interest rate.

Sears is paying tiered interest rates — from 5.5% on balances below $1,000 to 6.5% on more than $5,000. In addition, on balances of at least $1,000, the company is offering introductory rates one percentage point higher for the first month until mid-November.

Last week, major financial institutions around New York City were paying 5.1% to 5.5% on their money market accounts.

The deposit account is perhaps the most important factor in an overall banking relationship. "The Discover card proves that we do have the ability to establish a remote banking relationship," Mr. Wood says.

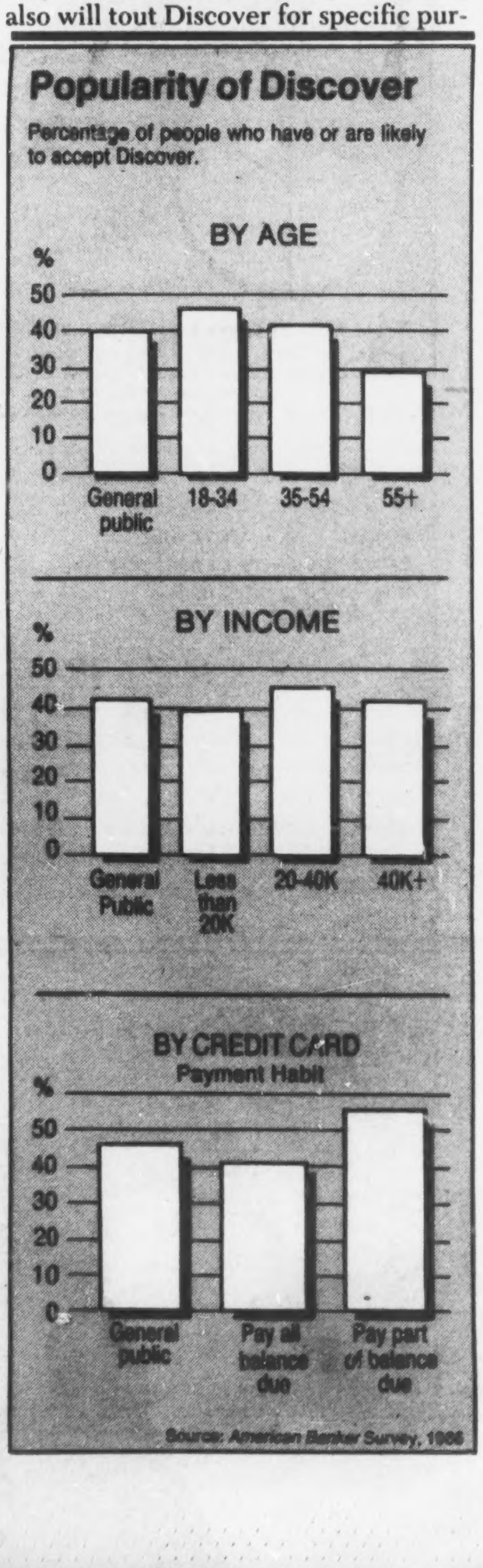
If so, Sears would succeed where Citicorp has encountered rough sledding. The holding company has been marketing its Citibank Financial Account since March 1984 in several markets around the country. It is a package of services that includes a checking account, access to cash at local ATMs, and credit cards.

A source knowledgeable about the operation says that Citicorp has had difficulty gathering checking account deposits, although the banking company says the account has "exceeded our expectations."

"I don't think the basic checking account is designed for a remote customer," the source says.

Whatever Sears' experience so far, most bankers think it is too soon to pass judgment on Discover. ■

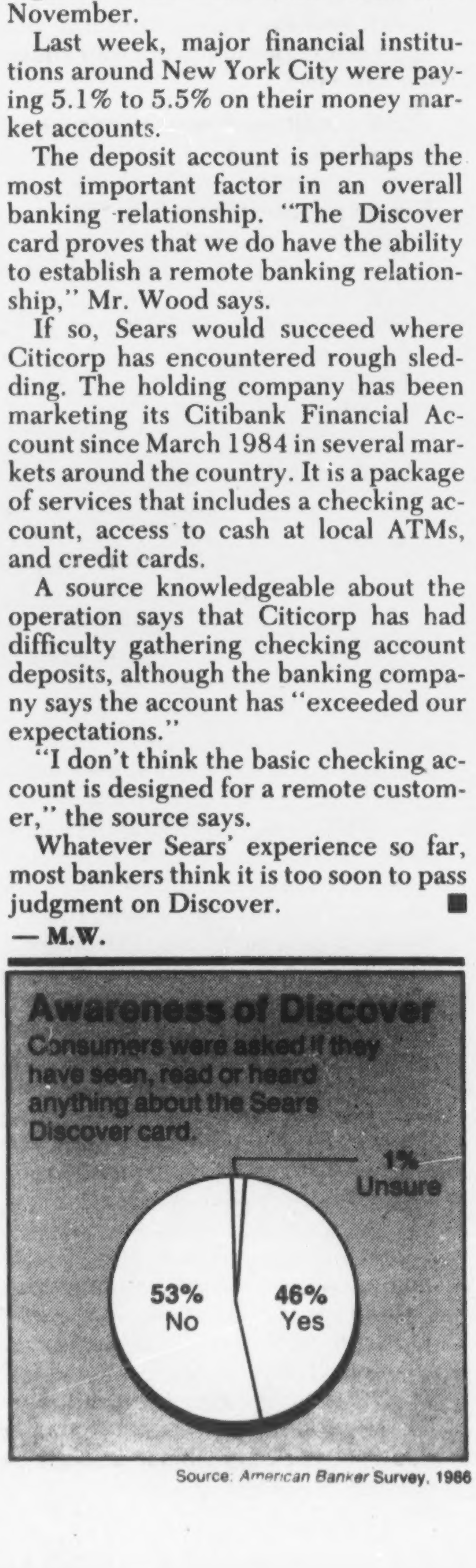
— **M.W.**



Popularity of Discover

Percentage of people who have or are likely to accept Discover.

Source: *American Banker* Survey, 1986



Awareness of Discover

Consumers were asked if they have seen, read or heard anything about the Sears Discover card.

Source: *American Banker* Survey, 1986

The Product May Be Identical, But MasterCard Ranked Second

But MasterCard's Outlays For Ads Lead Competitor

NEW YORK — Although MasterCard and Visa cards are virtually identical products, consumers rate Visa more highly than MasterCard for a range of uses, according to a survey commissioned by the *American Banker*.

These findings come at a time when both MasterCard International Inc. and Visa U.S.A. Inc. are in the midst of advertising campaigns that cast each card in a different light.

The newspaper's third annual survey, "How Consumer America Views the Changing Financial Services Industry," gauged attitudes on a range of issues. The nationwide telephone survey polled 1,028 adults between May 30 and June 18. It was conducted by Reichman Research Inc., a New York City-based opinion research firm.

This is the second article on how consumers view credit cards. Visa's superior image reflects the power of good marketing, industry observers say. "That's nothing but classic consumer-product marketing strategies," says Thomas N. Hammelman, senior vice president at First City Bancorporation of Texas in Houston.

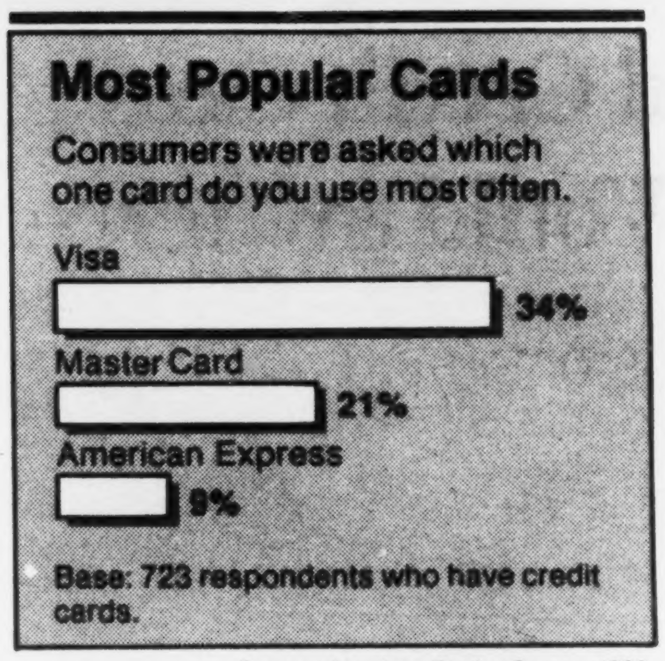
Meanwhile, MasterCard has been outspending Visa on advertising for the past three years. This year, MasterCard's ad budget is around $40 million, while Visa is spending $25 million, according to industry sources.

Also, Visa cards outnumber MasterCard plastic. At the end of June, there were 78 million MasterCard cards and 107.6 million Visa cards in the United States and Canada, according to the firms.

The *American Banker* attempted to discount Visa's numerical advantage — since consumers are inclined to favor their most frequently used card — by eliminating frequent Visa users from its tally of those who say Visa is the best card. Likewise, frequent MasterCard users were screened out from those who say MasterCard is best.

Visa still outranks MasterCard in all eight credit card characteristics listed in the survey.

Yet MasterCard and Visa cards offer consumers the same basic service — the ability to borrow money instantly — and they are generally accepted for payment in the same stores. Individual banks, which issue the cards and extend the credit, have been trying to customize their cards in recent years, but industry experts say they are basically similar.


Most Popular Cards

Consumers were asked which one card do you use most often.

Base: 723 respondents who have credit cards.

Source: *American Banker* Survey, 1986

In-house research at MasterCard International Inc. confirms the results of the newspaper's survey.

"It is indicative of a long-term problem," admits Joanne Black, senior vice president at MasterCard. "We've always been behind."

But MasterCard claims that its new advertising campaign — "Master the Possibilities" — is making headway against Visa.

After eight weeks into the campaign, more consumers named MasterCard first when asked to think about credit cards, according to MasterCard's research. Unaided awareness, as this is called, increased from 29% of consumers to 35%. Unaided awareness of Visa dipped from 47% to 45%, MasterCard says.

But MasterCard does not expect drastic changes soon. "We don't expect to see any significant movement in this area for at least a year," says Brad Iversen, vice president of market research at MasterCard.

The campaign, which began Feb. 23, features celebrities touting the card because it provides them with the freedom to live their lives as they see fit, to "master the possibilities."

"We're saying you can use it anywhere," Ms. Black says. She says that MasterCard wants to contrast the universal acceptance of its product with the more limited scope of travel and entertainment cards, which are used most frequently for restaurants and travel services.

Meanwhile, Visa's current ad campaign positions the card more as a travel and entertainment card.

MasterCard's new ads are also a change from its prior campaign — "So Worldly, So Welcome" — which showed the card being used in exotic places around the world.

Ms. Black says that the image of widespread acceptance is also important to stave off competition from a new entry in the credit card market — Sears, Roebuck and Co.'s Discover card.

While MasterCard is struggling to boost awareness of its name, Visa is already confident on that score. Now Visa is attempting a more sophisticated marketing task — to foster an image in

Survey: Page 14 ➼

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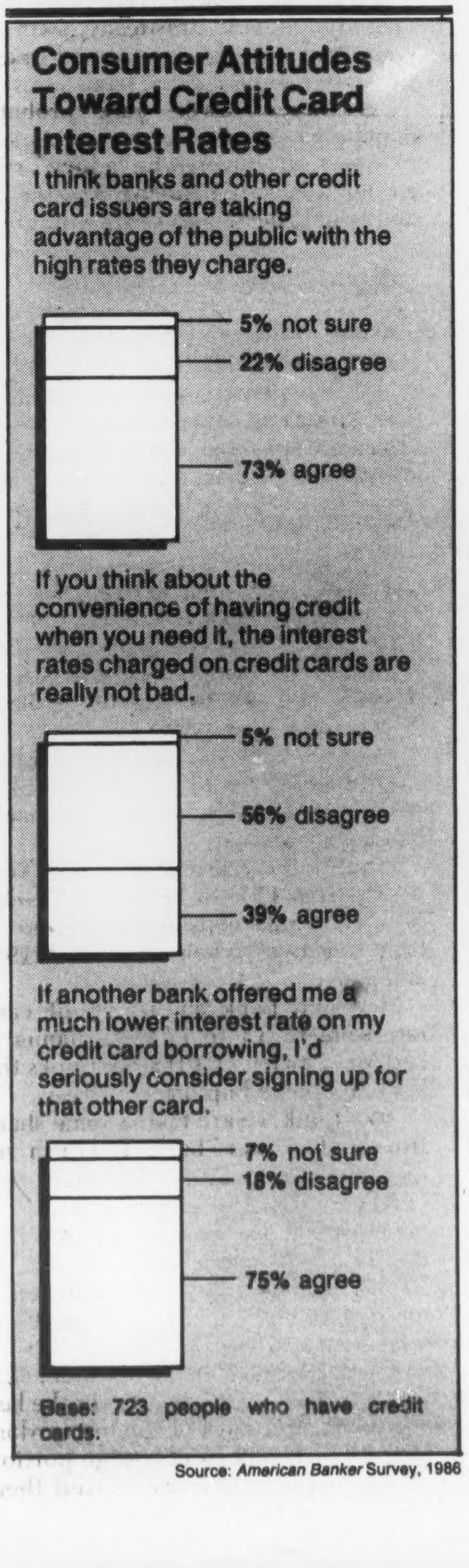
rates from the usual 18% or more.

In the last year or so, banks have been criticized by politicians and in the press for excessively high credit card rates. Market interest rates have dropped since the double-digit highs of 1981, and the Federal Reserve Board has cut the discount rate four times so far this year.


Consumer Attitudes Toward Credit Card Interest Rates

I think banks and other credit card issuers are taking advantage of the public with the high rates they charge.

If you think about the convenience of having credit when you need it, the interest rates charged on credit cards are really not bad.

If another bank offered me a much lower interest rate on my credit card borrowing, I'd seriously consider signing up for that other card.

Base: 723 people who have credit cards.

Source: *American Banker* Survey, 1986

But credit card rates have increased only slightly since the American consumer's romance with plastic money began in earnest in the late 1960s. And single-digit interest rates were the norm for most of the 1970s without any outcry over card rates.

So some bankers think that factors other than consumers' attitudes have created the current commotion over card rates.

Negative Publicity

Many bankers blame the negative publicity on politicians looking for an easy campaign issue.

"I think the news media has done more than its share of heightening the awareness of rates," says D. Dale Browning, president of Denver-based Colorado National Bank. "I do not think the consumer has reacted as negatively."

In fact, nearly 40% of the cardholders polled in the newspaper's survey cannot name the interest rate they pay on their most frequently used credit card.

A number of bankers say that consumers' inertia prevents them from changing to lower-rate cards even if they think that rates are too high.

"Conceptually, lower interest rates are probably always in fashion," says Thomas N. Hammelman, senior vice president at First City Bancorporation of Texas in Houston.

"There's been very little price-shopping taking place," adds Joel P. Friedman, director of strategic management at Arthur Andersen & Co. in San Francisco, who observes that cheaper cards are available. "That suggests that inertia in the marketplace is very high."

It is difficult, however, to compare credit card prices with one another like other consumer goods, such as stereos and televisions, Mr. Hammelman says.

The *American Banker* survey shows a higher sensitivity to interest rates among the most profitable cardholders — those who carry outstanding balances from month to month, also known as revolvers. These are the people who are being assessed finance charges.

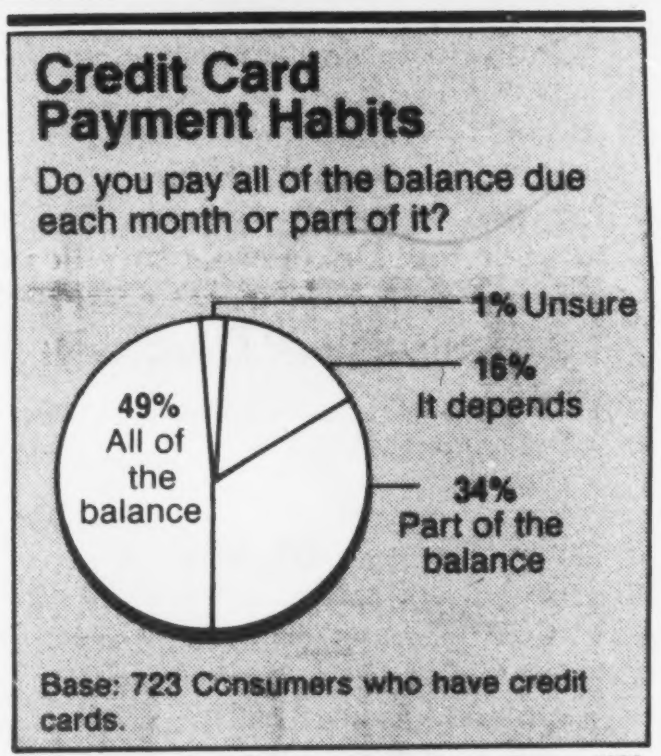
Those who pay off their credit card balances each month — known as convenience users — generally avoid paying any finance charges, since most banks allow a monthlong, interest-free grace period for credit card purchases. In effect, these cardholders enjoy an interest-free loan from their bank.

While 75% of the cardholders say they would "seriously consider signing up" for a credit card with a "much lower interest rate," a higher proportion — 82% — of revolvers express that sentiment.

The survey also finds a pronounced sensitivity to rates among young middle- and upper-income households. Of those age 25-44 with single-wage-earner incomes of at least $20,000, 89% say they would consider signing up for a lower-rate card.

This group also is heavily represented among revolvers. While 34% of the cardholders say they regularly roll over credit card balances, 49% of this young, affluent group says it does so.

Some bankers think factors other than interest rate are more significant to consumers.


Credit Card Payment Habits

Do you pay all of the balance due each month or part of it?

Base: 723 Consumers who have credit cards.

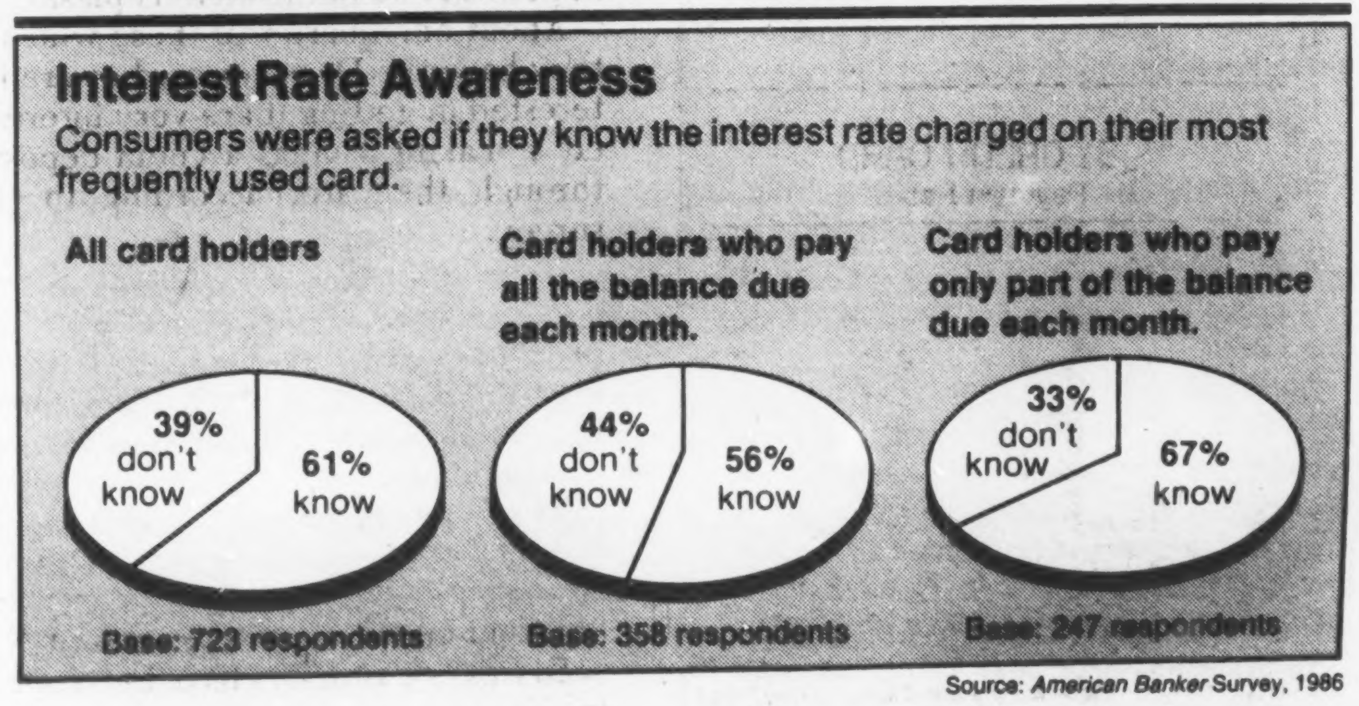
Source: *American Banker* Survey, 1986

"I think annual fees are more important than interest rates," says Colorado National's Mr. Browning.

Other bankers consider a large credit line to be a persuasive reason in consumers' minds.

"We know we're offering fairly high credit lines," says Mr. Walsh of Manufacturers Hanover, who speculates that his bank's cards may be attracting customers of regional banks who want higher credit limits. The interest rate charged by regional banks is generally in line with Manufacturers Hanover's 17.8% rate.

— M.W.


Interest Rate Awareness

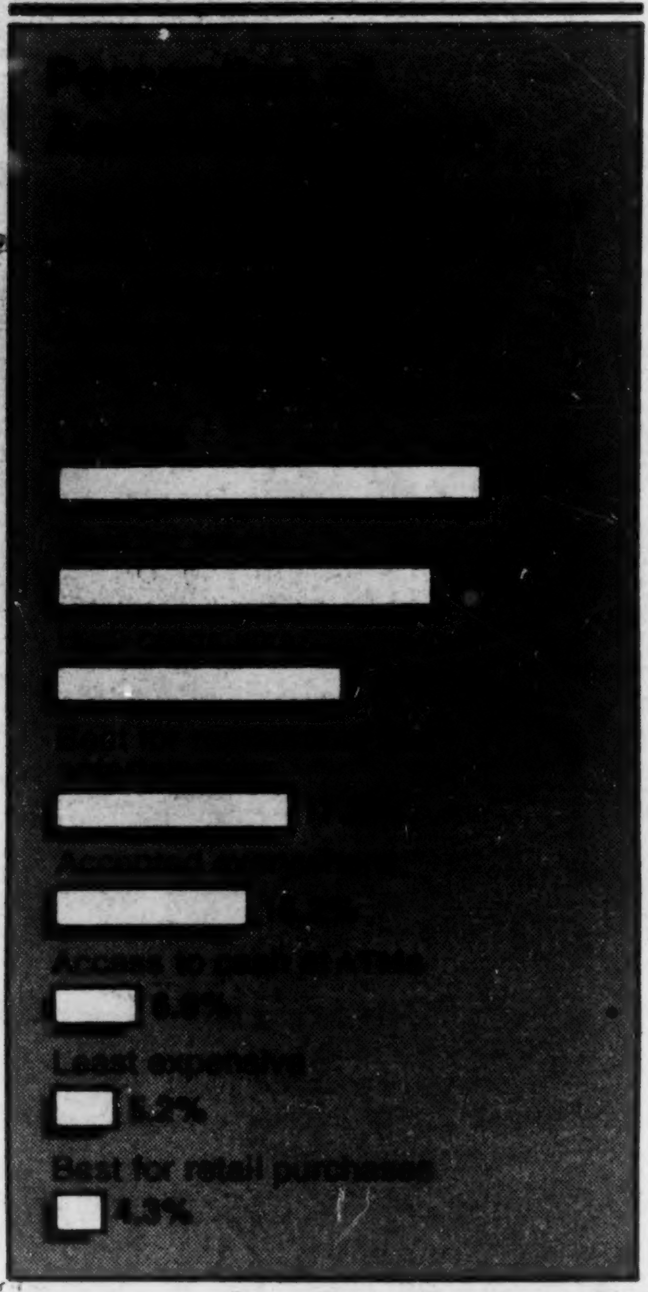
Consumers were asked if they know the interest rate charged on their most frequently used card.

Source: *American Banker* Survey, 1986

American Express Scores on Prestige, But Retail Rating Falls Short of Mark

NEW YORK — The American Express card is tops for prestige and travel uses, but it gets low marks for retail purchases, according to consumers polled by the *American Banker*.

Retailers, however, represent one of the most important markets for American Express Travel Related Services Co., which handles the charge card business. And the company is gearing up for a major marketing push in that area.



Source: *American Banker* Survey, 1986

American Express has traditionally promoted the card's exclusivity and its value to travelers, but within the last two weeks the company has started advertising the card as a shopping tool. Beginning this month, the company began offering to extend the manufacturer's warranty on goods purchased with an American Express card for up to one year.

Retailers are now the fastest growing merchant segment for American Express, says Edwin M. Cooperman, president of the Consumer Card Group USA at American Express. "We think you're going to see these numbers moving positively."

Now, the card ranks well below Visa and MasterCard in that category, according to the newspaper's survey.

Too low, Mr. Cooperman says. The survey results are "significantly different from our data," he adds.

But, he agrees, "we're in very low levels of retail stores compared to bank cards."

The bank cards are accepted at far more merchant locations than American Express. There are 1.4 million merchants worldwide that accept the American Express card, while MasterCard and Visa are accepted by more than 5 million merchants.

Consumers also give American Express a relatively low rating for access to cash at automated teller machines. But in the last year or two, American Express has energetically pursued deals with banks to expand ATM access for its cardholders.

"We haven't done our marketing effort yet [for ATMs]," Mr. Cooperman says.

There are about 8,300 ATMs around the world open to American Express cards, compared with 13,400 ATMs for MasterCard and 10,000 for Visa.

Mr. Cooperman also says that the *American Banker* survey distorts consumer attitudes toward American Express since the company generally does not market to people who earn less than $20,000 annually, except in certain areas. Thirty-one percent of the survey's 883 respondents who disclosed their incomes earn less than $20,000. ■

— M.W.

Most Consumers Say It's a Good Idea For American Express to Own a Bank

NEW YORK — People think it's a good idea for American Express to own a bank, but they're not so sure about Sears Roebuck, Merrill Lynch, Prudential Insurance, or Fidelity Investments.

The *American Banker's* latest consumer opinion poll shows that a wide margin of consumers believes that it would be appropriate for American Express to own a bank. Almost six in 10 people vote yes for American Express Co., while about three in 10 say no.

This margin is absent from consumer responses about the other financial services companies. In the case of Merrill Lynch & Co., nine percent more people vote in favor of the firm owning a bank than vote against the idea. But when it comes to Sears, Roebuck and Co., Prudential Insurance Co., and Fidelity Investments, people are generally divided over the issue with about as many in favor as opposed.

These are findings from the *American Banker's* third national consumer opinion survey. The telephone poll was undertaken this spring among 1,028 households by Reichman Research Inc., an opinion research firm based in New York and San Francisco.

The reason that American Express does so well is that "the first two associations people have when they think of American Express are products banks offer, too — charge cards and travelers checks," says David Reichman, the president of the company that conducted the research.

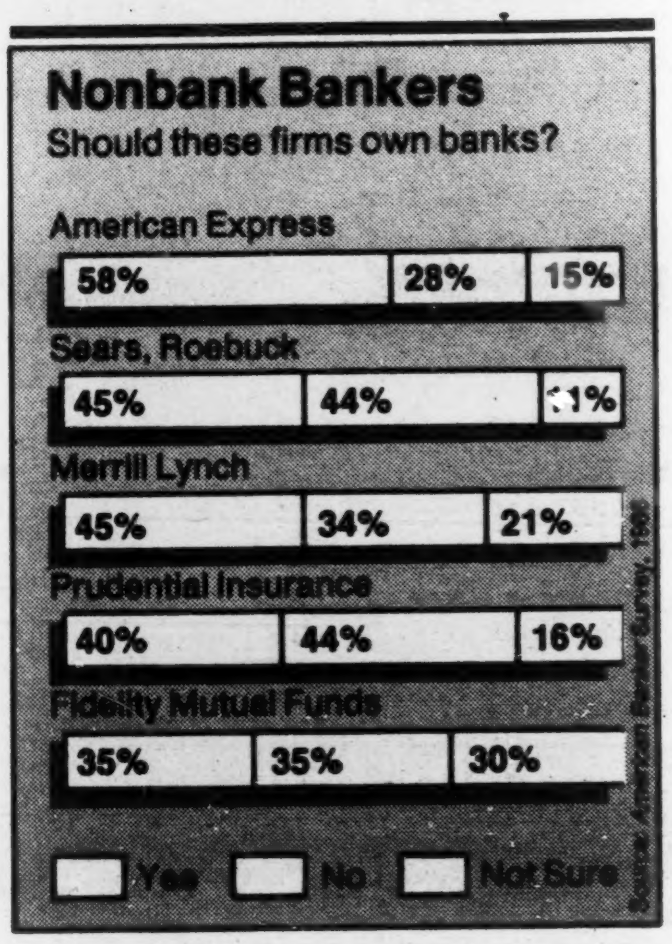
"They choose American Express to own a bank because that company has been positioning itself as a bank, so it is a bank in the minds of some consumers. If it looks like a bank, acts like a bank, and quacks like a bank, it must be a bank," suggests John A. Russell, vice president, Banc One Corp., Columbus, Ohio, and the president of the Bank Marketing Association this year.

American Express officials agree about the cards and travelers checks, but with the important caveat that "it's a hypothetical question for us. We don't own a domestic bank. It's illegal.

"It's nice to hope that this result indicates people have a great deal of trust in us. Our research indicates they do. We like to believe that we've delivered on the promise of reliability in our travelers check and credit card businesses," says Walter Montgomery, senior vice president, corporate communications.

Ironically, all of the institutions named in the survey question already own banks. American Express Co. owns an international bank — the American Express Bank Ltd., New York — and two domestic banks, the IDS Trust Co., Minneapolis, and the Centurion Bank, Newark, Del. The one headquartered in New York does only an international business. Both domestic institutions are what is called nonbank banks.

Nonbank banks are limited-service facilities that allow their parent firms to escape the jurisdiction of the Bank Holding Company Act through a loophole that defines a bank as something that either accepts demand deposits or



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consumers' minds.

Visa's current ad campaign — "Everywhere You Want to Be" — has been running about a year and takes direct aim at American Express. The ads show restaurants and other travel spots that accept Visa but do not honor American Express cards.

The *American Banker* survey shows that consumers rate Visa slightly higher than American Express for restaurant and entertainment use.

John Bennett, Visa senior vice president, thinks Visa is benefiting from the "halo effect" of comparing itself to American Express. He thinks that American Express' prestigious reputation may rub off on Visa because of the association in the ads.

The newspaper's survey shows that consumers think American Express is more prestigious, better for travel, and offers higher credit limits than the bank cards.

MasterCard is now beginning to run ads that tout the card's usefulness in department stores. This may further distinguish MasterCard and Visa as a bank card and travel and entertainment card, respectively.

But card-issuing banks generally see them as similar products. "They are generic services today," observes John F. Fisher, senior vice president at Banc One Corp. in Columbus, Ohio.

Consumer perceptions are also affected by bank advertising, since individual banks promote their own cards. For example, New York City-based Manufacturers Hanover Trust Co. may have inadvertently encouraged a distinction between Visa and MasterCard.

The bank, a heavy credit card advertiser this year, has been running ads for its Visa cards that are set in restaurants. The bank's ad for its MasterCard product features a young, suburban woman.

"My MasterCard ads did look like a purchase-type [card]," says Charles R. Walsh, senior vice president at Manufacturers Hanover, who disavows any intention of distinguishing the cards.

Several industry observers trace Visa's edge over MasterCard to 1977, when the BankAmericard name was changed to Visa. Bank of America introduced its own credit card — BankAmericard — in 1958, and began licensing it to other banks in 1966. These banks formed what became the Visa organization.

"When you hear the name Visa, you get an idea," Mr. Bennett says. "To me, it's a concept rather than a transaction. You think of travel."

"There was a second-class imagery that was hard to shake," concedes Ms. Black, referring to the Master Charge name, which preceded the MasterCard name. The name was changed in 1979.

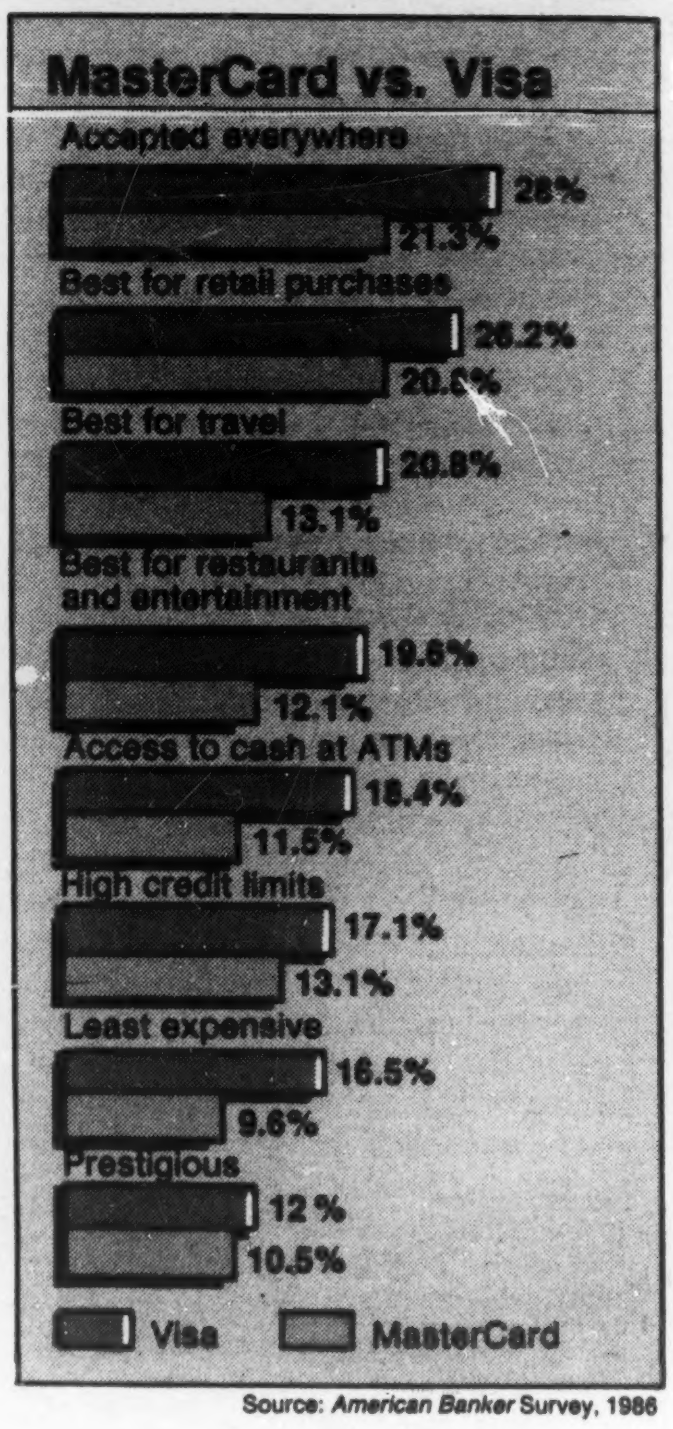
BankAmericard's name change was accompanied by a marketing blitz to promote it. And by the end of 1978, Visa surpassed Master Charge in number of cardholders and has retained the lead ever since. Until then, Master-Charge had consistently outranked Visa.

Some bankers say that advertising is not the only factor affecting consumer perceptions of bank cards. "The original card that somebody's gotten, if they haven't had a problem, they still consider it their [primary card]," says Mr. Hammelman of First City Bancorporation.

According to the *American Banker* survey, consumers express considerable uncertainty about credit cards' usefulness for getting cash at automated teller machines, their relative costs, and the availability of high credit limits.

Of 723 cardholders polled, 33% saythey do not know which card is best for access to cash at ATMs, 23% say they do not know which credit card is least expensive, and 17% say they do not know which card offers the highest credit limits. ■

— M.W.



Source: *American Banker* Survey, 1986

Customer Lines Not Getting Longer at ATMs

But Consumer Survey Finds More Heavy Users

NEW YORK — The number of people using automated teller machines in 1986 has remained virtually flat compared with a year ago, according to a survey commissioned by the *American Banker*.

However, the number of heavy users — those who say they use banking machines for every transaction — has doubled, and some bankers think that repeated use by ATM addicts is a major reason that more transactions are flowing through the nation's teller machines.

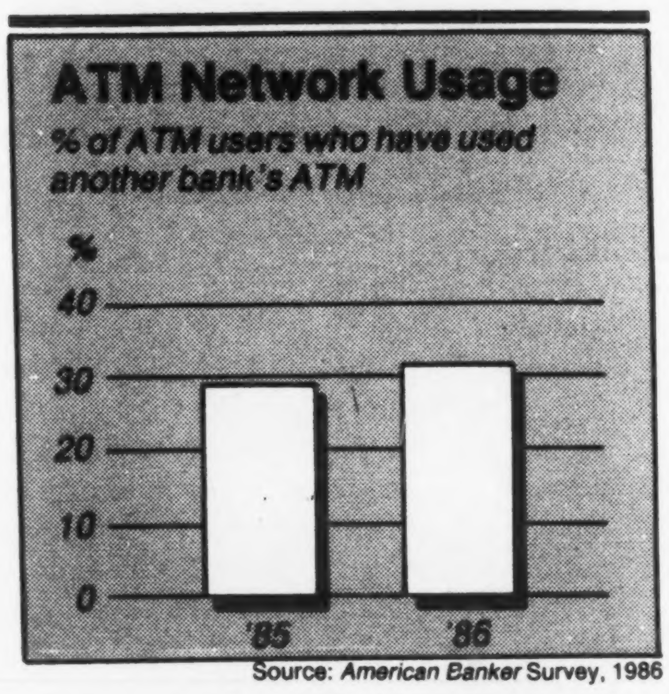
Even though transaction volume is up, industry observers say that at least some of the machines are not cost-effective. And bankers are divided over the importance of attracting new users quickly to ATM technology.

The newspaper's third annual survey, "How Consumer America Views the Changing Financial Services Industry," gauged attitudes on a range of issues in the financial services industry. The nationwide telephone survey polled 1,028 adults between May 30 and June 18. It was conducted by Reichman Research Inc., an opinion research firm in New York City and San Francisco.

Financial institutions have installed more than 60,000 ATMs in the name of better service and efficiency. The machines operate 24 hours a day and can handle a large number of routine transactions more economically than a human teller.

The equipment is costly to operate, however, and some bankers say the industry must work harder to persuade more people to use ATMs.

"People have been putting in machines much faster than people are using them," says Richard N. Speer, the president of Speer & Associates Inc., an Atlanta-based consulting firm specializing in electronic banking.



ATM Network Usage

% of ATM users who have used another bank's ATM

Source: *American Banker* Survey, 1986

Teller machines made their first appearance in the United States around 1970. Usage has increased since then, but in recent years growth has been flat or slight at most financial institutions.

The *American Banker* survey this year finds that 45% of consumers say they have used an ATM, down a bit from 48% in 1985.

The newspaper's survey shows these changes in ATM usage patterns:

	'86	'85
Every time	4%	2%
Most times	9%	13%
Sometimes	15%	16%
Hardly ever	16%	17%
Never use	55%	52%

"It's going to take years and years for society to use new services like ATMs," says D. Dale Browning, the president of the Colorado National Bank, Denver.

"Our real hope is for young people," Mr. Browning says. While 45% of the general public has used ATMs, 62% of those age 18 to 34 have used the machines, according to the *American Banker* survey.

There are two steps in promoting ATM usage. The first is issuing plastic access cards to as many customers as possible. The second is persuading them to use those cards. According to banking sources, 35% to 40% of cardholders are using ATMs regularly.

"[Usage] is going to grow naturally," says James T. Brewer, executive vice president with the Wachovia Bank & Trust Co., Winston-Salem, N.C. "Younger people are more comfortable with the machines."

In the meantime, Wachovia Bank & Trust is satisfied with the customer usage. "It's too hard to move it," Mr. Brewer says. "The marketing expense to move it measurably beyond the 35% is more than you can afford for the results you'll get."

A major source for more ATM usage is bank customers who do not have ATM access cards, Mr. Speer says. He reasons that half the population has an ATM card and that one-quarter will never use the technology, leaving one-quarter of the population lacking cards but willing to use ATMs.

But banks have been working harder recently to increase ATM usage by their existing cardholders, says Marjolijn van der Velde, managing director of the retail financial services group at Bank Administration Institute, a research organization in Rolling Meadows, Ill.

Among the 55% of consumers who have never used an ATM, the newspaper's survey finds from responses to an open-ended question that 29% say they had no reason to do so, 17% say their financial institution does not have any machines, and 10% say they would rather deal with humans.

The *American Banker* survey shows these changes in usage patterns among consumers who have used ATMs:

	'86	'85
Every time	8%	4%
Most times	19%	27%
Sometimes	34%	33%
Hardly ever	37%	36%

Even if some bankers are disappointed with the level of ATM usage, they say the technology provides better service and is paving the way for a more efficient banking system in the future.

Teller machines let customers get cash, make deposits, and check their account balances any time of the day or night.

"It's moving them towards a self-service banking environment," says Ralph A. Kuebler, vice president with the Maryland National Bank, Baltimore.

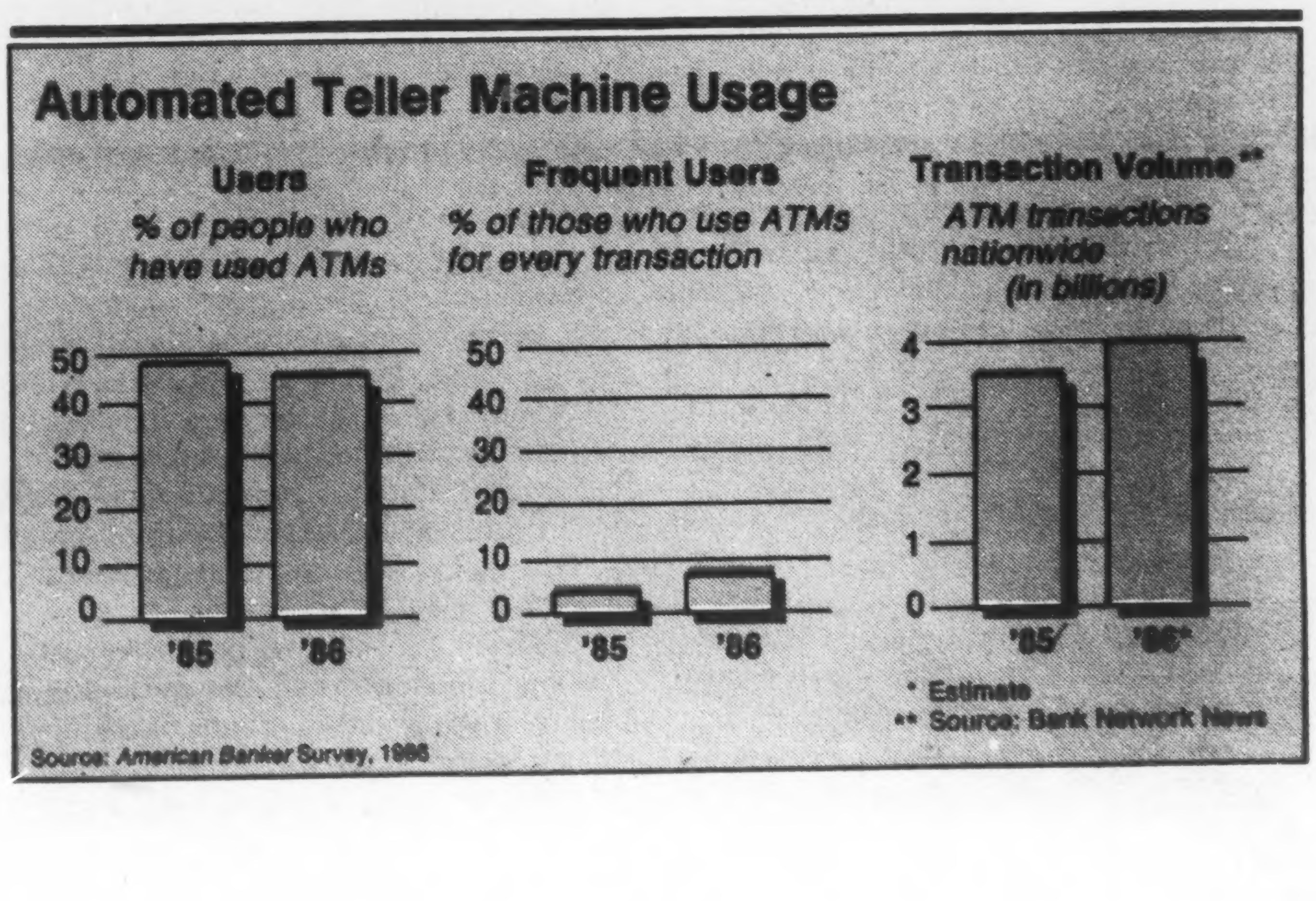
"Over time, it will result in a more cost-effective delivery system for banks," says Douglas D. Anderson, senior vice president with the Philadelphia National Bank. "It's a long-term investment."

ATMs can save a bank money if they attract enough customers so that the bank can use fewer tellers and thus reduce labor costs. The machines also can lower brick-and-mortar costs if they enable the bank to eliminate branches, use smaller branches, or limitthe hours that branches are open.

"We think it's three to five years off before you'll see substantial cost savings," Mr. Speer says.

He estimates that it costs $50,000 a year to run and maintain one automated teller machine, which represents the major cost of an ATM program compared to the purchase and installation of the equipment.

"Our cost analysis indicates they're basically a break-even proposition," Mr. Brewer says. "I don't think they've saved us any costs.".



Automated Teller Machine Usage

Users

% of people who have used ATMs

Frequent Users

% of those who use ATMs for every transaction

Transaction Volume**

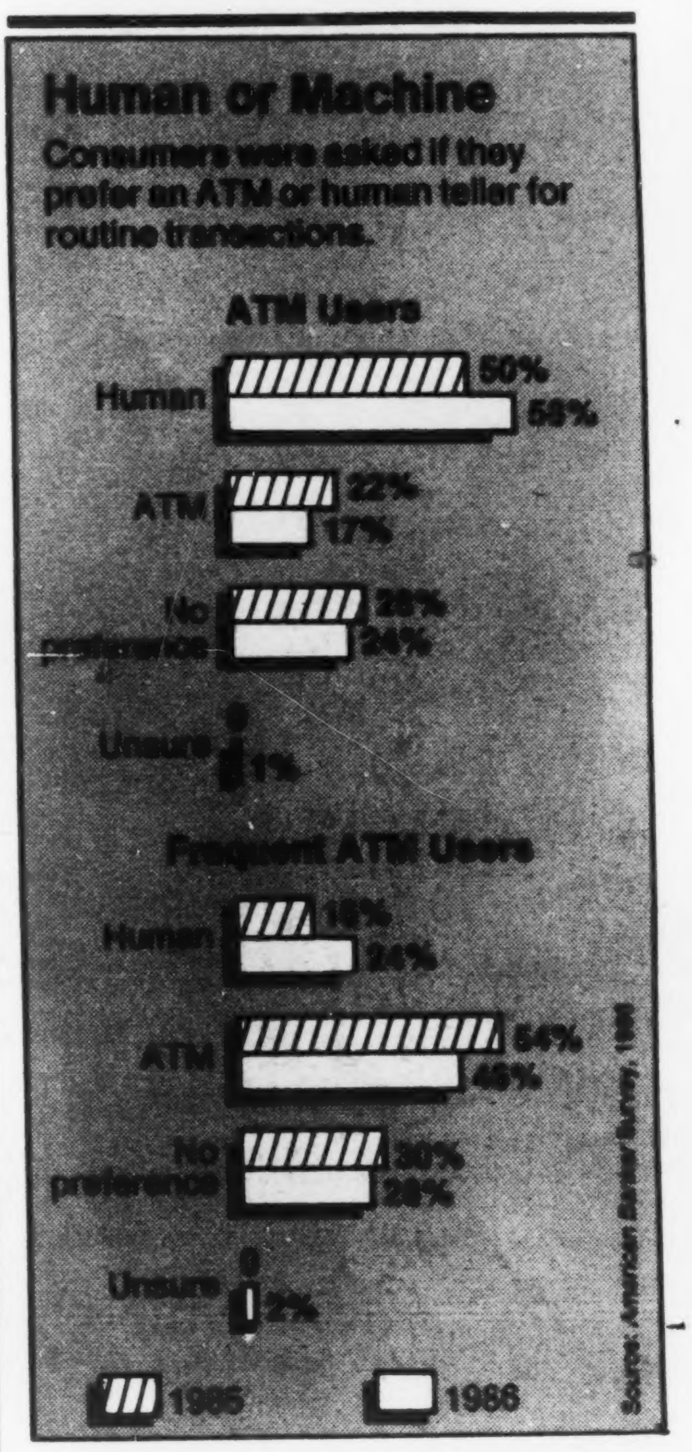
ATM transactions nationwide (in billions)

* Estimate

** Source: Bank Network News

Source: *American Banker* Survey, 1986

But at banks with low transaction volumes, teller machines simply have increased the costs of providing retail banking services, industry observers say. "In every instance, they haven't been economically justified," says Mr. Browning of Colorado National.



Human or Machine

Consumers were asked if they prefer an ATM or human teller for routine transactions.

ATM Users

Frequent ATM Users

Source: American Banker Survey, 1986

Banks also can recoup part of their investment in ATMs by charging consumers fees for using the machines. Some banks have begun levying such charges, but it is still a controversial issue in the industry.

In addition, many consumers say they prefer live tellers over ATMs.

The *American Banker* survey shows an increase in consumers' preference for humans. Among ATM users, 58% prefer humans in 1986 compared with 50% the year before. And among frequent ATM users, 24% prefer live tellers, compared with 16% in 1985.

"There has been a continual preference for the human teller," Mr. Speer says.

Frequent ATM users, however, still prefer a machine over a teller, according to the newspaper's survey.

"An active ATM user is very active," Mr. Speer says. "When they get to use the machine, the average user is using it, on average, five times a month."

And some banks easily have surpassed the industry standard.

At New York City-based Citibank, 85% of the bank's debit cardholders use teller machines an average of nine times a month, says Ray Quinlan, a Citibank vice president.

Shared networks — which allow customers of one bank to use another bank's machines and vice versa — also have helped boost usage in some cases.

At Philadelphia National Bank, 65% of the customers' ATM transactions occur at other banks' machines, Mr. Anderson says. Philadelphia National belongs to the MAC network, which includes 1,800 ATMs in Pennsylvania, New Jersey, and Delaware.

The *American Banker* survey finds that usage of shared networks is up slightly this year. Among ATM users, 32% of consumers say they have used another bank's ATM this year, compared with 29% in 1985. ■

— M.W.

➽ **Continued from Page 14**

makes commercial loans. They do one or the other. Both American Express banks in the United States are consumer banks.

Sears also owns consumer-oriented nonbank banks, the Greenwood Trust Co., in Delaware, and the Hurley State Bank, in South Dakota. Also, Sears owns the federally chartered Sears Savings Bank, Glendale, Calif.

Fidelity owns three banks: the Fidelity Management Trust Co., Boston; the Fidelity National Bank and Trust Co., New York; and the Fidelity Bank and Trust Co., Salem, N.H.

Prudential owns a bank, too: the Prudential Bank and Trust Co., Hapeville, Ga., which is a bankers' bank, offering asset-liability management and other correspondent services to smaller commercial banks nationwide.

Robert L. Burr, vice president in charge of research at Prudential, says he doesn't take it too hard that Prudential is the only one of the five companies that more people say no to than yes.

"They'd say that about any insurance company. The association between banking and insurance companies is harder for consumers to make than for nondefinable organizations such as American Express or Sears," he says.

Merrill Lynch recently acquired the Merrill Lynch Bank and Trust Co.,

Bank Ownership: Page 16 ➽

Most Consumers Object to Fees On Automated Teller Machines

Bankers Divided on Issue; Some Fear Drop in Usage

By MICHAEL WEINSTEIN

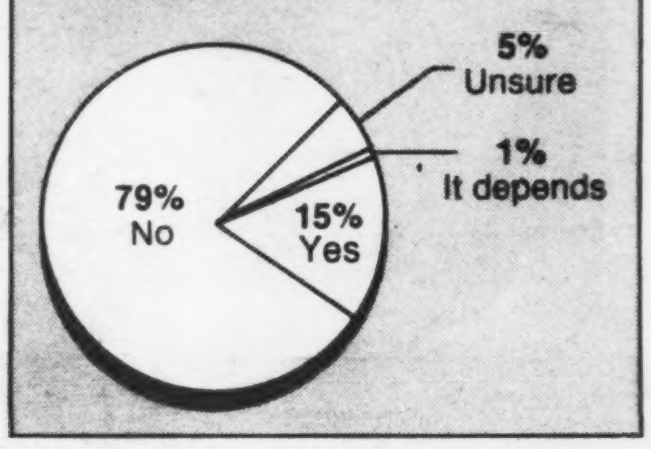
NEW YORK — A majority of consumers think that it is unreasonable for banks to charge them for automated teller machine transactions at a time when more and more banks are levying such fees, according to a survey commissioned by the *American Banker.*

Some bankers think that consumers are willing to pay for the convenience of using the machines. And ATM fees contribute to banks' noninterest income — an increasingly important source of revenue for the banking industry.

Other bankers, however, oppose ATM fees, saying that the charges will deter customers from using the machines and defeat the purpose of installing the equipment.

ATM Fees

Do you pay a fee to use your bank's ATMs?



Source: *American Banker* Survey, 1986

The newspaper's third annual survey, "How Consumer America Views the Changing Financial Services Industry," gauged attitudes on a range of issues in the financial services industry. The nationwide telephone survey polled 1,028 adults between May 30 and June 18. It was conducted by Reichman Research Inc., an opinion research firm in New York City and San Francisco.

"Consumers have proved to be relatively insensitive to pricing of ATM transaction services, within reason," says Douglas D. Anderson, senior vice president at the Philadelphia National Bank. "Financial institutions can indeed do it."

Philadelphia National levies teller machine fees when cardholders' account balances fall below required minimum levels.

"The consumer is willing to pay for the time and location convenience, but only after he's experienced it," says Richard N. Speer, president of Speer & Associates Inc., an Atlanta-based consulting firm. "It's very hard to put these prices in place until he's experienced the value."

When asked in the *American Banker's* survey whether it is reasonable for a bank to charge a small fee each time a consumer uses its teller machines, 33% of ATM users say yes, 65% say no, and 2% are unsure.

"Those kinds of opinions are not terribly valuable," says James T. Brewer, executive vice president at Wachovia Bank & Trust Co., Winston-Salem, N.C. He adds that consumers generally say they oppose paying fees when given a choice.

He says he is encouraged, however, by the number of people who say it is reasonable for a bank to charge transaction fees. "I don't think we should give away ATM transactions," he says.

On the other hand, the Colorado National Bank, Denver, does not charge customers for teller machine transactions so as not to discourage them from using plastic cards in computerized terminals, says D. Dale Browning, president of Colorado National. The machines can handle a large number of routine transactions more efficiently than human tellers can.

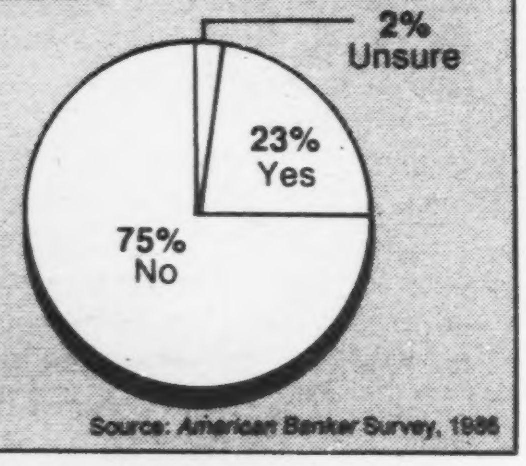
"Fees to generate revenues is probably a contradictory marketing policy," says David Reichman, the president of Reichman Research. "I think the light users could be dissuaded by any type of fee."

The *American Banker* survey finds that 71% of ATM users are infrequent users — those who say they use the machines sometimes or hardly ever.

The newspaper's survey also finds that 15% of ATM users pay a fee for using their bank's teller machines while 79% do not. Five percent are unsure and 1% say it depends on the type of transaction.

Frequent ATM Users

Is it reasonable for banks to charge a small fee for each ATM transaction?



Source: *American Banker* Survey, 1986

Several industry observers think the number of consumers paying fees for ATM usage is even higher. "I think a lot of people don't know that they're paying a fee," says Ralph A. Kuebler, vice president at Maryland National Bank, Baltimore.

Anywhere from 40% to 60% of ATM users actually are paying teller machine fees, Mr. Speer estimates. "Service charge income has risen dramatically."

Many banks levy charges for teller machine usage as part of their overall checking account package. For example, a customer might pay 15 cents to 25 cents per item — be it an ATM transaction or check — if his or her balance drops below a preset minimum. At other banks, when balances get too low, a monthly fee is assessed that covers a range of services, including ATMs.

In Florida and Texas, however, banks have been charging explicit fees for more than a year on certain ATM transactions. In those states, banks have been charging anywhere from 50 cents to a dollar for foreign transactions — those that are made at machines owned by another financial institution.

Bankers there report that transaction volume has grown despite the fees. Teller machine networks in Texas and Florida rank among the nation's 10 largest by transaction volume, according to *Bank Network News,* an industry newsletter in Chicago.

"The volumes within our program continued to escalate dramatically," says Stan Paur, president of Financial Interchange Inc., Houston. Financial Interchange operates the Pulse network of some 4,100 ATMs owned by more than 1,700 financial institutions.

Pulse recorded 2.9 million foreign transactions in August 1985, and that number passed four million last August.

"It hasn't seemed to hamper us at all," echoes Michael A. Strada, the president and chief executive officer of Florida Interchange Group Inc., Orlando, which operates the Honor network. Honor has 280 financial institutions and about 2,100 teller machines.

"Transactions will drop considerably for [each] institution for about 60 to 90 days, then the volume will come back," Mr. Strada says. About nine months after the fees start, transaction volume exceeds the pre-fee level, he says. Honor handled 2.6 million foreign transactions last September, compared with 1.9 million in September 1985.

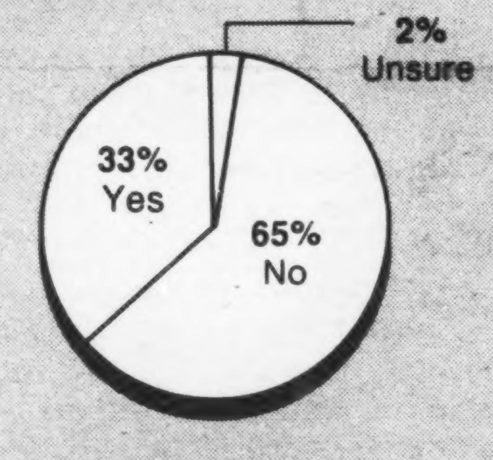
Often, other institutions' ATMs are located more conveniently than a bank's own machines for consumers that use them. "The consumer is willing to pay a reasonable fee for that convenience," Mr. Paur says.

Banks also justify such fees based on higher costs. When cardholders use another institution's machine, the card-issuing bank must pay the ATM-owning bank a fee for that transaction.

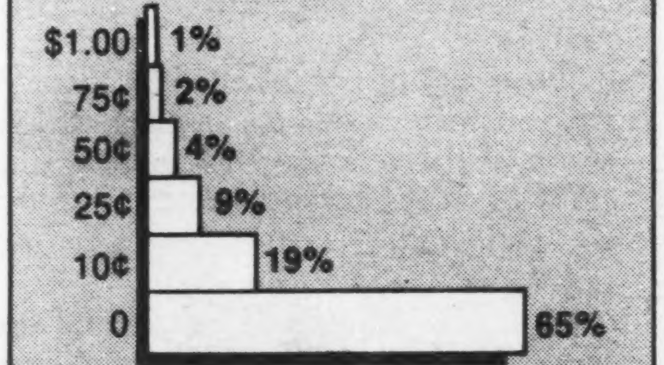
One consultant says he thinks that banks should look closely at frequent ATM users and should design a package of services, such as extra features available via teller machines, specifically for that market. Banks could charge for these services as long as customers believe they provided extra value, says John C. Shaw, a national partner at the accounting firm of Touche Ross & Co.

Will Consumers Pay for ATMs?

Is it reasonable for banks to charge a small fee for each ATM transaction?



What's a reasonable fee?



Source: *American Banker* Survey, 1986

The *American Banker* survey finds that the number of people who use teller machines for every transaction has doubled in 1986, while the total number of users has dipped slightly.

"I think the banks need to be much more precise about the specific retail markets they're serving and what the needs for those markets are," Mr. Shaw says.

And one industry observer advises against transaction fees for teller machine service.

"I think consumers are becoming sensitive to being nickeled and dimed to death," says Marjolijn van der Velde, the managing director of the retail financial services group at the Bank Administration Institute, a research organization in Rolling Meadows, Ill. "You need to price the ATM on the whole relationship, not as a single product. The pricing issue, I think, is critical."

According to the newspaper's survey, more sentiment against fees exists among frequent ATM users than among all ATM users. However, some experts say they think the heavy users are willing to pay for the value they get from the service.

"The people who use them are going to use them — no matter, as long as it is reasonable," Mr. Reichman says. ■

Continued from Page 15

Plainsboro Township, N.J. But it has not decided yet whether to take consumer deposits or make commercial loans.

"We're just getting started," explains James M. Flynn, vice president, corporate communications.

He suggests that perhaps Merrill received more of a vote of confidence on this measure than three other financial services suppliers because "a lot of people might see us as providing somewhat of a banklike function through our Cash Management Account, which comes with checks. And we have a million CMA credit cards out there, too."

But Sears offers credit cards. Sears owns banks. Sears' Dean Witter group offers a cash management-type account, the Active Assets Account. Why don't more people think Sears should own a bank?

Mr. Flynn says he has no idea. Sears executives have none either. "I wonder, though, if you'd asked the question 'Sears/Dean Witter/Allstate,' if you'd have gotten the same response," says Allan B. Stewart, Sears vice president for corporate planning.

What matters to him, he says, is that research done by Sears last year shows that a lot of people think their money would be just as safe at Sears as at a bank.

Sears asked its customers: "Assuming some day Sears may have banks around the country, do you feel that your money would be safer, as safe, or less safe at Sears than at a local bank?"

Eighty-three percent said as safe, 8% said safer, 7% said less safe, and 2% didn't have an answer.

That's the kind of data that encourages the demise of the Glass-Steagall Act, the one that keeps banking and commerce separate.

And it begs the chief public policy question raised by the proliferation of nonbank banks, according to James E. Boland, general counsel for the Senate Banking Committee: "Is there any way to protect against potential abuses other than separate ownership of banking and commercial enterprises?"

He doesn't venture an opinion but he does observe that these survey findings show that "people don't realize those firms already own banks."

Even if people did know, he says, they probably wouldn't concern themselves with the fact: "I just don't think the average consumer thinks about this," Mr. Boland says. — L.G.